KASB

Contents

[Vision]

Partnering Success

[Values]

V	ision	Customer Focus and Innovation
A	ttitude	Passion and Quest that Drives Us
L	eadership	Sense of Integrity, Trust & Accountability
U	pright	Commitment to Being a Credible Corporate Citizen
E	xcellence	Distinction as a Habit
S	ynergy	Ability to Harness the Power of Teams

[Mission]
STATEMENT

Excellence in customer service and innovation for sustained profitable growth through prudent business practices

[Services]

Commercial Banking

- Retail Banking
- Middle Market Financing
- SME Financing
- Agriculture Financing

Corporate Banking

- Term Loans
- Working Capital & Trade Finance
- Project Finance

Consumer Financial Services

- Home Loans
- Personal Loans
- Purpose Loans
- Equity Unlock

Investment Banking

- Financial Advisory Services
- Equity Capital Markets
- Debt Capital Markets

Global Transactional Services

- Home Remittances
- Cash Management Services
- Correspondent Banking
- Trade Finance

Value Added Services

- VISA Debit Card
- ATM Network
- KASB One Phone Banking
- Internet Banking
- E-Banking
- SMS Alerts

The Group

KASB Bank Limited

KASB Bank is now serving clients through 104 branches in 43 cities of Pakistan, offering unique and innovative financial solutions to a large portfolio of investment, corporate and consumer banking customers. KASB Bank is regarded as the flagship entity of the group with state of the art technology providing wide scale financial services to a diversified client base. The Bank also provides a host of financial services offered by the KASB Group.

KASB SECURITIES

KASB Securities is one of the oldest securities firms in Pakistan, tracing its roots back to 1955. A full service firm, intermediary services are offered in equities, commodity futures, fixed income and interdealer foreign exchange, supplemented by award winning research. Over 15,000 institutional, individual and foreign clients place their trust in KASB Securities. Research is co-branded with Bank of America Merrill Lynch, a 19 year relationship.

KASB FUNDS

KASB Funds Limited is in the business of providing investment and savings solutions to its investors through a range of investment products. KASB Funds serves a large and diversified investor base with its investment products, ranging from retail investors to high net worth individuals and from pension funds, employee benefit funds to corporations and institutions. KASB Funds also provides investment advisory services to a host of clients.

KASB Modaraba

KASB Modaraba is a multipurpose, perpetual and multi dimensional Modaraba, floated as First Mehran Modaraba in October 1990 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The main lines of business of Modaraba are Ijarah, Musharaka, Murabaha and Modaraba transactions & Capital Market operations. KASB Modaraba is one of the first to take Modaraba business to high streets in Pakistan.

CORPORATE INFORMATION

Board of Directors

Chairman
Suo Lang Duo Ji

President / Chief Executive Officer
Aamer H. Zaidi

Directors
Irshad Ali Shaban Ali Kassim
Leon Seynave
Muneer Kamal
Syed Tariq Hussain Gilani
Tariq M. Rangoonwala
Waseem Haqqie

Chief Financial Officer
Syed Liaquat Ali

Company Secretary
Muhammad Hamidullah

Auditors
Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Legal Advisors
Mandviwalla & Zafar
Advocates & Legal Consultants

Registered Office
Razia Sharif Plaza,
Jinnah Avenue, 90-Blue Area, Islamabad
Tel: (92-51) 2270725, 2276828-30
Fax: (92-51) 2270727

Principal Office
Business & Finance Centre
I.I. Chundrigar Road, Karachi
Tel: (92-21) 32446772-77
Fax: (92-21) 32446828 & 32446865

Website
http://www.kasb.com/bank

Audit Committee
Leon Seynave
Syed Tariq Hussain Gilani
Waseem Haqqie (Chairman)

Human Resource and Remuneration Committee
Aamer H. Zaidi
Irshad Ali Shaban Ali Kassim (Chairman)
Leon Seynave
Muneer Kamal
Waseem Haqqie

Risk Management and Recovery Committee
Aamer H. Zaidi
Muneer Kamal (Chairman)
Syed Tariq Hussain Gilani
Tariq M. Rangoonwala
Waseem Haqqie

Regional Office, Lahore
KASB House
14-C, Jail Road, Gulberg,
Lahore.
Tel; (92-42) 35776723-4
Fax: (92-42) 35762192

Registrar and Share Transfer Office
Noble Computer Services (Pvt.) Limited
Mezzanine Floor, House of Habib Building,
(Siddiqsons Tower),
3-Jinnah Cooperative Housing Society,
Main Shahrah-e-Faisal,
Karachi - 75350.
Tel. # : (92-21) 34325482-87 (6 Lines)
Fax # : (92-21) 34325442
E-mail: ncsl@noble-computers.com

(All names in alphabetical order)

Management Committee (MANCOM):

Aamer H. Zaidi - President & CEO
Abid Aziz Merchant - Group Head–FI, Trade & Treasury Marketing
Farooq Ahmed Khan - Group Executive Corporate Banking
Muhammad Faisal Anwar - Group Head Operations & Technology
Muhammad Hamidullah - Company Secretary
Muhammad Muzaffar Khan - Country Treasurer
Munir Saleem - Group Executive Commercial Banking
Shaban Butt - Group Head Human Resources
Syed Liaquat Ali - Chief Financial Officer
Syed Masud Ahmed Naqvi - Head International Division
Tahir Ayub - Group Head SAM
Waqar Ahmed Khan - Group Head Global Transaction Services

Investment Committee:

Aamer H. Zaidi - President & CEO
Azra Yaqub - Head Risk Management & Policies
Farooq Ahmed Khan - Group Executive Corporate Banking
Khaqan Saadullah Khan - Head Investment Banking
Muhammad Muzaffar Khan - Country Treasurer
Munir Saleem - Group Executive Commercial Banking
Syed Liaquat Ali - Chief Financial Officer

Assets & Liability Committee:

Aamer H. Zaidi - President & CEO
Azra Yaqub - Head Risk Management & Policies
Farooq Ahmed Khan - Group Executive Corporate Banking
Khaqan Saadullah Khan - Head Investment Banking
Muhammad Muzaffar Khan - Country Treasurer
Syed Liaquat Ali - Chief Financial Officer

Human Resources Management Committee:

Aamer H. Zaidi - President & CEO
Faisal Anwar - Group Head Operations & Technology
Farooq Ahmed Khan - Group Executive Corporate Banking
Munir Saleem - Group Executive Commercial Banking
Shaban Butt - Group Head Human Resources
Syed Liaquat Ali - Chief Financial Officer

Market Risk Policy Committee:

Aamer H. Zaidi - President & CEO
Azra Yaqub - Head Risk Management & Policies
Muhammad Muzaffar Khan - Country Treasurer
Syed Liaquat Ali - Chief Financial Officer

Credit Risk Management Committee:

Aamer H. Zaidi - President & CEO
Azra Yaqub - Head Risk Management & Policies
Farooq Ahmed Khan - Group Executive Corporate Banking
Muhammad Sadiq Sheikh - Country Credit Officer
Munir Saleem - Group Executive Commercial Banking

Information Technology Steering Committee:

Aamer H. Zaidi - President & CEO
Abid Aziz Merchant - Group Head–FI, Trade & Treasury Marketing
Farooq Ahmed Khan - Group Executive Corporate Banking
Muhammad Faisal Anwar - Group Head Operations & Technology
Munir Saleem - Group Executive Commercial Banking
Rashid Zaman Khan - Head of IT Operations
Syed Liaquat Ali - Chief Financial Officer

(All names in alphabetical order)

We are pleased to present the Directors report and the audited financial statements of KASB Bank Limited for the year 2011.

MACROECONOMIC PERFORMANCE

The country's economy has been facing various challenges despite stabilization attempts aiming at generating more growth, employment and improving the quality of life of the people. Managing inflation has been a key concern in the background of surging oil prices. This coupled with drying sources of foreign inflows other than the workers remittances has led to higher domestic borrowings particularly from the scheduled banks. The country's current account deficit has significantly increased mainly due to the trade deficit. Severe gas and power shortage has affected the overall production of the country. The measures aiming at correction of fiscal deficit may result in faster recovery and growth at a greater pace. Steps towards right direction are progressing such as to broaden the country's tax base, reduction in Government spending through austerity measures, promote exports, incentivize home remittances and implement power sector reforms. The going is tough but the track record of the economy shows that it has the resilience and can perform in tough conditions.

The banking spreads remained under pressure. Growing Government appetite for domestic sources of funds kept its share at 90% of the total investment portfolio of the banks keeping the private sector credit growth in check in the near term. Reversal in SBP discount rate policy will certainly help the banks as the non-performing loans accumulation currently peaked at Rs. 607 Billion is expected to slow down.

Key financial indicators

Key financial figures of your Bank with comparatives for last year are as follows:

Balance Sheet	Dec 31, 2011	Dec 31, 2010
	-------- Rupees in Million --------	
Paid-up Capital	19,509	9,509
Equity	3,290	2,464
Deposits	61,263	46,274
Advances - net	28,437	29,528
Investments - net	16,884	13,893
Profit and Loss Account		
Revenue	137	576
Non markup expenses	2,580	2,496
Operating (Loss)	(2,443)	(1,920)
Provisions	550	1,514
(Loss) before tax	(3,001)	(3,455)
(Loss) after tax	(2,370)	(2,711)
(Loss) per share - Rupees	(2.36)	(2.85)

Business review

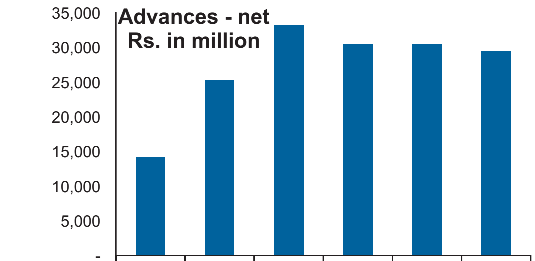
The liquidity of the Bank has significantly improved due to consistent increase in the deposits. The surplus liquidity as at 31st December 2011 was Rs. 5.6 Billion.

Deposit levels are rising - total deposits were at Rs 61 billion (Rs 46 billion at Dec 2010); deposit cost has been decreasing continuously - 9.08% as at 31st December 2011 compared to 9.6% as at December 2010 and 11.75% as at December 2009; the deposit mix has been improving - CASA was 65% of total deposits as at 31st December 2011. A major advertising campaign was launched on television and the print media which has produced positive results. Despite losses incurred in the last three years the KASB brand has remained strong in the market and customer accounts have significantly increased over last three years due to excellent customer service and launch of new products. The number of customer accounts aggregated 171,816 as at 31st December 2011 compared to 116,743 last year.

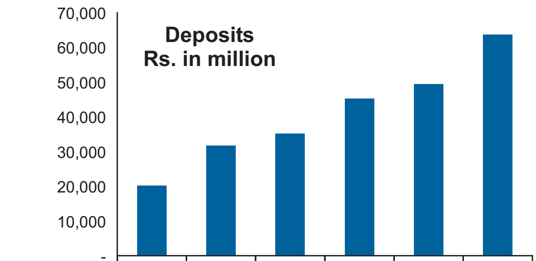
The Bank gives the management of NPLs the highest priority. The Bank through its Special Assets Management Group (SAMG) has adopted an aggressive mode for recoveries in cash and restructuring/re-scheduling. The Bank has also introduced a vigorous process of watch listing in order to tackle the problematic accounts at an early stage and thus reduce accounts being classified. The Bank has a robust recovery team which is dealing with NPLs on a regular basis. We have adequate asset coverage for the net NPLs. In addition, substantial number of companies and customers with NPLs are still operating and the bank is in the process of restructuring their facilities wherever required.

Investment Banking Group (IBG) is progressing on various Privatization Commission transactions as well as on advisory mandates for various corporates. Further, the Bank under SBP's PRI initiative has attracted significant volumes as home remittances with a consistent rising trend supported by reputable partner institutions with unparalleled service quality standards. The home remittance volumes increased to US $ 160.55 Million compared to us $ 110.4 M last year.

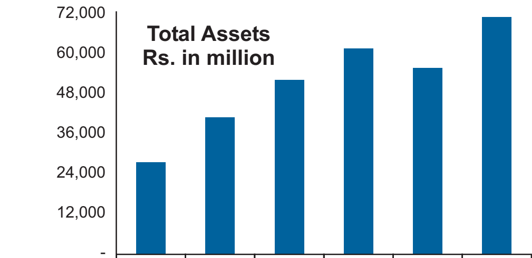
Following is a graphical presentation of growth in deposits, advances, investments and total assets of the Bank:



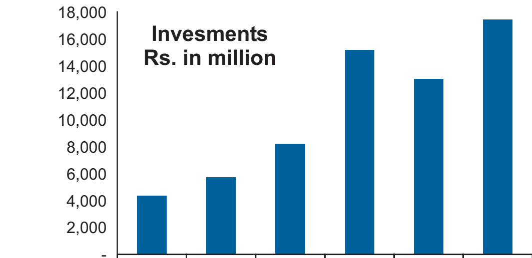
	2006	2007	2008	2009	2010	2011
Advances - net	14,113	25,143	32,240	29,499	29,528	28,437



	2006	2007	2008	2009	2010	2011
Deposits	21,276	33,132	35,087	43,900	46,274	61,263



	2006	2007	2008	2009	2010	2011
Total Assets	26,539	40,891	51,799	59,504	56,711	71,263



	2006	2007	2008	2009	2010	2011
Investments	5,094	7,278	9,454	15,970	13,893	16,884

Changes in Board Composition

Election of Directors was held in April, 2011 and all the Directors on the earlier Board of the Bank were elected as Directors for a period of three years. Since then till December 31, 2011 only one casual vacancy occurred on resignation of Mr. Nasir Ali Shah Bukhari which was filled in by co-option of Mr. Suo Lang Duo Ji, the main Chinese Investor, with effect from August 29, 2011 with concurrence of the State Bank of Pakistan.

Shareholders' Equity

In line with the Capital Enhancement Plan, one billion Rights Shares of Rs 10 each were offered to the shareholders at a discount of 70% i.e. at Rs.3/- per share. The unsubscribed rights were subscribed by KASB Finance (Pvt.) Limited under their underwriting agreement. The paid up share capital after the rights subscription has increased from Rs. 9,508,616,620 to Rs.19,508,616,620.

Auditors' report

Auditors in their report have emphasized on the issue of non-compliance with the prescribed requirement of capital as on December 31, 2011. The Board and management of your bank are of the view that upon completion of the capital injection plan the bank will be fully compliant with the statutory requirements.

Another reference made by the auditors in their report relates to the realization of the deferred tax asset in the future years. Management of your bank is confident that the forecast profits as per the financial projections approved by the Board of Directors would be sufficient enough to absorb the total amount of deferred tax asset.

Corporate Governance

The management and the Board have remained very conscious of good governance. Following statements are recorded to meet the requirements of the code of Corporate Governance:

- The financial statements prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- Proper books of account have been maintained by the Bank;
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as disclosed therein, and accounting estimates are based on reasonable and prudent judgment;

- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented and monitored on best possible efforts;
- There are no doubts upon the Bank's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- Key operating and financial data of last six years has been included in these financial statements;
- In view of the loss for the year, no dividend is proposed to be given for the year; and
- There is no outstanding statutory payment on account of taxes, duties, levies and charges, other than those disclosed in the financial statements.

Employee Benefits Scheme

Your Bank operates two Employee Benefit Schemes, one Un-Funded Gratuity Scheme and the other Funded Employees' Provident Fund. The value of investments of Employees' Provident Fund based on its un-audited accounts for the period ended December 31, 2011 was Rs. 245 million.

Shareholding by Directors

The following share acquisitions were made by the Directors during the year 2011:

- Syed Tariq Hussain Gilani acquired 500 shares as beneficial owner.
- Mr. Suo Lang Duo Ji acquired 500 shares as beneficial owner.
- 25,000 shares were gifted to Mr. Irshadali Shabanali Kassim by his father.

No other transaction in Bank's shares was carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children during the year 2011.

Pattern of Shareholding

The Pattern of shareholding as at December 31, 2011 along with disclosure required under the Code of Corporate Governance is included in this Annual Report.

Board of Directors Meetings

Seven (7) Board meetings were held during the financial year 2011. Information about the attendance is as under:

Name of Director	No. of meetings attended
Mr. Nasir Ali Shah Bukhari	5*
Mr. Mohammad Aftab Manzoor (Chief Executive)	1**
Mr. Tariq M. Rangoonwala	6
Mr. Muneer Kamal	7
Mr. Irshad Ali Shaban Ali Kassim	6
Mr. Waseem Haqqie	7
Mr. Leon Seynave	6
Mr. Syed Tariq Hussain Gilani	5***
Mr. Suo Lang Duo Ji	-****
Mr. Aamer H. Zaidi (Chief Executive)	2*****

**Relinquished Directorship with effect from August 29, 2011.*
***Relinquished Chief Executive Office with effect from April 01, 2011.*
**** Became Director on January 21, 2011.*
***** Became Director on August 29, 2011.*
******Became Chief Executive with effect from October 25, 2011.*
Leave of absence was duly granted to all members who were not present in the respective meetings.

Credit Rating

The re-assessment of the credit rating is currently in progress. PACRA has last assigned long term rating of BBB and short term rating of A-3.

Auditors

The present auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, (EY) Chartered Accountants retire and, being eligible, have offered themselves for re-appointment in the forthcoming Annual General Meeting. The Audit Committee of the Board has recommended the re appointment of EY for the next term.

Acknowledgment

We would like to thank our valued customers for their continued patronage and support, the State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory authorities for their guidance, our staff for their commitment, hard work and dedication, and our shareholders for the trust and confidence reposed in us.

For and on behalf of the Board of Directors.

Leon Seynave
Chairman

Karachi
03 April 2012

	2011	2010 Restated	2009 Restated	2008	2007	2006
			(Rupees in Millions)			
Paid-up Share Capital	19,509	9,509	9,509	7,633	4,015	2,293
Reserve Fund & Other Reserves	(16,784)	(7,397)	(4,724)	1,180	158	(131)
Shareholders' Equity	2,725	2,112	4,785	8,813	4,173	2,162
Total Assets (Excluding Contra)	71,263	56,711	59,504	51,799	40,891	26,539
Deposits	61,263	46,274	43,900	35,087	33,132	21,276
Advances-net	28,437	29,528	29,499	32,240	25,143	14,113
Investments-net	16,884	13,893	15,970	9,454	7,278	5,094
Imports & Export Business	34,087	31,478	25,399	28,501	21,434	16,798
Pre-tax Profit / (Loss)	(3,001)	(3,455)	(5,943)	(1,849)	66	53
Post-tax Profit / (Loss)	(2,370)	(2,711)	(4,228)	(973)	198	137
No.of Branches	104	104	100	73	35	35
No.of Employees	1,126	1,198	1,118	1,134	892	694
Bonus Shares	-	-	1,962	-	-	-
(Loss) / Earning per share - Rupees	(2.36)	(2.85)	(4.45)	(1.63)	0.90	0.62
Break up value per share - Rupees	1.69	2.59	5.51	12.05	13.78	9.43

HORIZONTAL ANALYSIS

	2011 v 2010	2010 v 2009	2009 v 2008	2008 v 2007	2007 v 2006
		Restated	Restated		
Assets					
Cash and balances with treasury banks	47.37%	14.76%	89.15%	-49.78%	30.24%
Balances with other banks	5241.73%	7.20%	214.58%	-92.69%	1.00%
Lendings to financial institutions	1456.71%	-98.57%	404.01%	-68.49%	-23.38%
Investments	21.53%	-13.00%	68.92%	29.90%	42.87%
Advances	-3.69%	0.10%	-8.50%	28.23%	78.15%
Operating fixed assets	-1.10%	2.44%	20.81%	149.36%	62.70%
Deferred tax assets	17.88%	28.18%	78.65%	143.55%	24.95%
Other assets	-16.67%	33.75%	-40.56%	216.75%	56.32%
	25.66%	-4.69%	14.88%	26.68%	54.08%
Liabilities					
Bills payable	64.79%	40.14%	77.49%	-75.25%	339.50%
Borrowings	-27.87%	-25.11%	30.09%	260.86%	-19.76%
Deposits and other accounts	32.39%	5.41%	25.11%	5.90%	55.73%
Sub-ordinated loans	0.00%	0.00%	0.00%	0.00%	0.00%
Liabilities against assets subject to finance lease	-30.41%	-64.00%	-37.77%	868.50%	-75.00%
Other liabilities	7.56%	-27.28%	80.41%	16.07%	12.32%
	25.30%	-0.03%	27.38%	16.37%	49.96%
NET ASSETS	33.56%	-52.98%	-43.04%	114.75%	101.22%
Represented by					
Share capital	105.17%	0.00%	-1.19%	29.22%	35.50%
Reserves	-4085.97%	0.00%	6.03%	438.05%	3151.52%
Accumulated losses	29.53%	54.57%	402.53%	12084.85%	-95.09%
	29.02%	-55.87%	-45.71%	111.25%	92.97%
Surplus on revaluation of assets - net of tax	60.79%	-22.65%	17.78%	244.97%	-439.39%
	33.56%	-52.98%	-43.04%	114.75%	101.22%

STATEMENT OF VALUE ADDED

Added as Follows	2011 (Rupees in '000)	2011 %	2010 (Rupees in '000)	2010 %
Markup/Return Earned - net of Provisions	3,959,679	75%	3,481,736	72%
Gain on Sale of Investment	126,750	2%	110,475	2%
Fee, Commission and Brokerage Income	359,939	7%	327,511	7%
Dividend Income	14,905	0%	61,535	1%
Income from Dealing in Foreign Currencies	109,250	2%	64,389	1%
Deferred Tax & Other Income	692,660	13%	803,909	17%
Total Value Added	5,263,183	100%	4,849,555	100%

Distributed as Follows	2011 (Rupees in '000)	2011 %	2010 (Rupees in '000)	2010 %
To Employees as Remuneration	1,034,996	20%	1,098,513	23%
To Society as Donations	-	0%	2,558	0%
To Depositors as Profit on Investments	4,338,667	82%	4,438,556	92%
Interest on Borrowings	714,233	14%	625,585	13%
To Government as Income Tax	-	0%	-	0%
Administrative Expenses / Other Charges	1,545,212	29%	1,395,012	29%
Retained in Business	(2,369,925)	-45%	(2,710,669)	-56%
Total Value Distributed	5,263,183	100%	4,849,555	100%

NOTICE OF SEVENTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Seventeenth Annual General Meeting (AGM) of KASB Bank Limited (the Bank) will be held on Saturday, April 28, 2012 at 11:00 a.m. at the Registered Office of the Bank at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad to transact the following business:

1. To confirm the Minutes of the Annual General Meeting held on April 28, 2011.

2. To adopt the annual audited standalone and consolidated accounts of the Bank for the year ended December 31, 2011 together with the Directors' and Auditors' Reports thereon.

3. To appoint auditors for the year ending December 31, 2012 and to fix their remuneration. Present Auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants have offered their services for reappointment for the year ending December 31, 2012.

4. To transact any other business with permission of the Chair.

By Order of the Board

Place: Islamabad
Date: 6 April 2012

Muhammad Hamidullah
Company Secretary

NOTES:

1. The Share Transfer Books of the Bank will be closed from April 21, 2012 to April 28, 2012 (both days inclusive).

2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. A proxy must be a member of the Bank. Proxies in order to be effective must be received by the Bank at its Registered Office Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad not less than forty-eight hours before the meeting.

3. Shareholders are requested to promptly notify the change of address, if any, and also for the consolidation of Folio numbers, if any member holds more than one Folio, to our Registrar, Noble Computer Services (Private) Limited, Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah C. H. Society, Main Shahrah-e-Faisal, Karachi.

4. CDC shareholders are requested to bring with them their National Identity Card along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

The Board of Directors (the Board) of KASB Bank Limited (the Bank) reaffirms its commitments towards implementation and compliance of the requirements of the Code of Corporate Governance (the Code). The Code is being complied with for the purpose of establishing a framework of good governance whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Board comprises of seven directors and includes independent and non executive directors, with the President / Chief Executive Officer and one director being the exceptions as executive members.

2. None of the directors is serving as a director in more than ten listed companies including the Bank.

3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to any bank / DFI / NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Elections of directors was held in April 2011 and all the directors on the earlier Board were re-elected as directors for a period of three years. Subsequently, Mr. Suo Lang Duo Ji was appointed as director in place of Mr. Nasir Ali Shah Bukhari.

5. The Bank has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Bank.

6. The Board has formulated a 'Vision' and 'Mission' statement and all corporate strategies and significant policies have been made with appropriate delegation of authorities and responsibilities to various levels of management. Record of particulars of significant policies and the approvals/amendments thereto has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer and Executive Director have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman, and the Board met at least once in every quarter. Written notices of the Board meetings along with agenda were circulated before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board has approved appointment of Chief Financial Officer, including its remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. However, no new appointments of Company Secretary and Head of Internal Audit have been made during the year.

10. During the year, an orientation program on Corporate Governance was conducted for all the directors.

11. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.

12. The Directors' Report for the year ended December 31, 2011 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be discussed.

13. The financial statements of the Bank for the year ended December 31, 2011 were duly endorsed by Chief Executive Officer and Chief Financial Officer before presenting to Audit Committee and then to the Board for approval.

14. The Bank has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee comprising of three non executive directors. Terms of reference of the Audit Committee have been determined. The meetings of the Audit Committee were held at least once every quarter prior to approval of the quarterly, half-yearly and final accounts of the Bank, as required by the Code.

16. The related party transactions have been placed before the Audit Committee and approved by the Board.

17. The Board has set up an internal audit function. The staff of Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full time basis.

18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed the IFAC guidelines in this regard.

20. We confirm that all material principles contained in the Code have been complied with.

Leon Seynave
Chairman

Karachi:
3 April 2012

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

ERNST & YOUNG

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541,Karachi 75530, Pakistan

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We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2011 prepared by the Board of Directors of KASB Bank Limited (the Bank) to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Bank is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiry of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance, procedures and risks.

Further, the Listing Regulations require the Bank to place before the Board of Directors for its consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Bank for the year ended 31 December 2011.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Date: 03 April 2012
Karachi

A member firm of Ernst & Young Global Limited

STATEMENT ON INTERNAL CONTROLS

It is the responsibility of the management of KASB Bank to fully establish and maintain adequate internal controls and procedures and ensures that necessary resources and efforts are undertaken and deployed towards implementing strong control procedures and maintaining sound control environment.

Board of Directors of the Bank is responsible for establishing overall policies related to these controls and systems. The Internal Audit Division, being an independent function reporting to the Audit Committee of the Board monitors compliance with Bank's policies, procedures and related controls and reports significant deviations regularly to the Board Audit Committee. The Internal Audit Division also regularly assesses the adequacy of the Internal Control system and environment, based on the annual audit plan approved by the Audit Committee. The observations, weaknesses and suggestions made by the external auditors are also promptly addressed and necessary steps are taken by the management to eliminate weaknesses highlighted by them. On an ongoing basis, compliance department and internal control unit (ICU) carry out frequent verifications of transactions to ensure prompt rectifications wherever required, to ensure compliance with the laid down procedures and regulations.

The Bank is currently in the process of adopting an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the State Bank of Pakistan's (SBP) Internal Control Guidelines. The Bank has devised a well-defined and comprehensive Internal Control Programme along the lines of staged roadmap, as suggested by SBP. In accordance with this Programme, the Bank has completed a detailed documentation of the existing processes and control, Gap Analysis and remediation plan is completed. The long form report as required along with external auditors report has been submitted to the State Bank of Pakistan. Further steps are in implementation to achieve full compliance of SBP directives, in this regard by the due dates .

The work completed to date is available for review by the Bank's external auditors under the SBP Internal Control Guidelines. Going forward, the Bank plans to implement various initiatives to adequately remediate the gaps in a timely manner identified during the analysis. In addition, comprehensive management testing plans will be implemented to assess on-going operating effectiveness of key controls.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the organization's policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurances against material misstatements or loss. The system of internal controls being followed by the Bank is considered adequate and sound in design and is being effectively implemented and monitored.

The Board of Directors endorses the above stated management's evaluation of internal controls.

Aamer H. Zaidi
President and
Chief Executive Officer

STANDALONE FINANCIAL STATEMENTS

ERNST & YOUNG

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
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We have audited the annexed statement of financial position of KASB Bank Limited (the Bank) as at 31 December 2011, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fourteen branches (including four sub-branches) which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

(a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

(b) in our opinion:

   (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.1 to the financial statements, with which we concur;

   (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

(c) in our opinion, and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2011 and its true balance of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

We draw attention to:

(i) note 1.2 to the financial statements, which fully explains the Bank's capital deficiency in terms of the regulatory requirements as prescribed by the State Bank of Pakistan and the management's future plans and actions in relation thereto. The said note also indicates the existence of material uncertainties with respect to the recapitalisation of the Bank and consequently, its sustainability in future. Further, the Bank has sought an extension of time from the State Bank of Pakistan till 30 June 2012 to finalize its capital injection plan; and

(ii) note 14.2 to the financial statements, which states that deferred tax asset has been recognized in these financial statements on the basis of Bank's financial projections for the future years as approved by the Board of Directors of the Bank. The preparation of financial projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.

Our opinion is not qualified in respect of the above matters.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid
Date: 03 April 2012
Karachi

A member firm of Ernst & Young Global Limited

AS AT 31 DECEMBER 2011

	Note	2011	2010	2009
		---------------------- (Rupees in '000)		----------------------
			Restated (Note 43)	Restated (Note 43)
ASSETS				
Cash and balances with treasury banks	8	4,822,597	3,272,520	2,851,665
Balances with other banks	9	10,644,794	199,276	185,896
Lendings to financial institutions	10	622,683	40,000	2,804,596
Investments	11	16,883,748	13,892,945	15,969,531
Advances	12	28,437,166	29,527,698	29,498,752
Operating fixed assets	13	3,342,032	3,379,130	3,298,720
Deferred tax assets	14	4,016,880	3,407,613	2,658,476
Other assets	15	2,492,870	2,991,475	2,236,596
		71,262,770	56,710,657	59,504,232
LIABILITIES				
Bills payable	16	891,579	541,041	386,066
Borrowings	17	4,427,271	6,138,207	8,196,640
Deposits and other accounts	18	61,262,896	46,274,187	43,899,695
Sub-ordinated loans		-	-	-
Liabilities against assets subject to finance lease	19	1,510	2,170	6,027
Deferred tax liabilities		-	-	-
Other liabilities	20	1,389,025	1,291,421	1,775,760
		67,972,281	54,247,026	54,264,188
NET ASSETS		3,290,489	2,463,631	5,240,044
REPRESENTED BY				
Share capital	21	19,508,617	9,508,617	9,508,617
Reserves		384	151,287	151,287
Accumulated losses		(9,808,201)	(7,571,978)	(4,898,649)
(Discount) / premium on issue of right shares		(6,976,276)	23,724	23,724
		2,724,524	2,111,650	4,784,979
Surplus on revaluation of assets - net of tax	22	565,965	351,981	455,065
		3,290,489	2,463,631	5,240,044
CONTINGENCIES AND COMMITMENTS	23			

The annexed notes 1 to 45 form an integral part of these financial statements.

President and Chief Executive	Director	Director	Director

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		(Rupees in '000)	
Mark-up / return / interest earned	25	4,517,206	5,017,060
Mark-up / return / interest expensed	26	(5,052,900)	(5,064,141)
Net mark-up / return / interest income		(535,694)	(47,081)
Provision against non-performing loans and advances	12.5	(582,614)	(1,180,328)
Reversal / (provision) for diminution in the value of investments	11.3	33,074	(333,491)
Bad debts written off directly	12.6.1	(7,987)	(21,505)
		(557,527)	(1,535,324)
Net mark-up / return / interest income after provisions		(1,093,221)	(1,582,405)
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		359,939	327,511
Dividend income		14,905	61,535
Income from dealing in foreign currencies		109,250	64,389
Gain on sale / redemption of securities	27	126,750	110,475
Unrealised loss on revaluation of investments classified as held for trading		-	-
Other income	28	61,852	59,203
Total non mark-up / interest income		672,696	623,113
		(420,525)	(959,292)
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	(2,323,287)	(2,495,158)
Other provisions / write offs	15.3	(129,135)	-
Other charges	30	(127,786)	(925)
Total non mark-up / interest expenses		(2,580,208)	(2,496,083)
LOSS BEFORE TAXATION		(3,000,733)	(3,455,375)
Taxation - Current		-	-
- Prior years		-	-
- Deferred	14.1	630,808	744,706
		630,808	744,706
LOSS AFTER TAXATION		(2,369,925)	(2,710,669)
Basic and diluted loss per share (Rupees)	31	(2.36)	(2.85)

The annexed notes 1 to 45 form an integral part of these financial statements.

President and Chief Executive | Director | Director | Director

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	(Rupees in '000)	
Net loss for the year	(2,369,925)	(2,710,669)
Other comprehensive income	-	-
Total comprehensive loss for the year	(2,369,925)	(2,710,669)

Surplus on revaluation of fixed assets and available for sale investments is required to be shown separately below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan (SBP). Accordingly, these have not been included in the statement of comprehensive income.

The annexed notes 1 to 45 form an integral part of these financial statements.

President and Chief Executive | Director | Director | Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(3,000,733)	(3,455,375)
Less: dividend income		(14,905)	(61,535)
		(3,015,638)	(3,516,910)
Adjustments:			
Depreciation		258,413	264,826
Amortisation		49,198	110,395
Provision against non-performing loans and advances		582,614	1,180,328
(Reversal) / provision for diminution in the value of investments		(33,074)	333,491
Bad debts written off directly		7,987	21,505
Loss / (gain) on sale of fixed assets		15,195	(6,960)
Provision for gratuity		12,371	33,880
Financial charges on leased assets		34	506
Impairment of goodwill		64,736	-
Other provisions / write offs		129,135	-
		1,086,609	1,937,971
Decrease / (increase) in operating assets			
Lendings to financial institutions		(582,683)	2,764,596
Investments in held for trading securities		-	5,949
Advances		499,931	(1,230,779)
Others assets		307,059	(747,600)
		224,307	792,166
Increase / (decrease) in operating liabilities			
Bills payable		350,538	154,975
Borrowings		(2,262,852)	(2,070,430)
Deposits and other accounts		14,988,709	2,374,492
Other liabilities		110,268	(502,827)
		13,186,663	(43,790)
Income tax paid		(2,898)	(6,745)
Gratuity paid		(24,390)	(14,188)
Compensated absences paid		(644)	(1,204)
Net cash inflow from / (used in) operating activities		11,454,009	(852,700)
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments in) / proceeds from available for sale securities		(3,813,357)	1,611,603
Investments in held to maturity securities		925,920	113,371
Investments in subsidiaries and associates		-	(58,000)
Dividend income received		15,479	61,000
Investments in fixed assets		(199,791)	(528,003)
Sale proceeds on disposal of fixed assets		103,609	79,330
Net cash (used in) / inflow from investing activities		(2,968,140)	1,279,301
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds form issue of right shares		3,000,000	-
Share issue cost		(41,496)	-
Payments of lease obligations		(694)	(4,363)
Net cash inflow from / (used in) financing activities		2,957,810	(4,363)
Net increase in cash and cash equivalents		11,443,679	422,238
Cash and cash equivalents at beginning of the year		3,443,777	3,021,539
Cash and cash equivalents at end of the year	32	14,887,456	3,443,777

The annexed notes 1 to 45 form an integral part of these financial statements.

President and Chief Executive	Director	Director	Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Statutory reserve	General reserves	(Discount) / premium on issue of shares	Accumulated losses	Total
	-----(Rupees in ' 000)-----					
Balance as at 31 December 2009 - as previously reported	9,508,617	150,903	384	23,724	(5,179,823)	4,503,805
Effect of prior year adjustment - net of tax (note 43)	-	-	-	-	281,174	281,174
Balance as at 31 December 2009 - as restated	9,508,617	150,903	384	23,724	(4,898,649)	4,784,979
Total comprehensive loss for the year	-	-	-	-	(2,710,669)	(2,710,669)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	37,340	37,340
Balance as at 31 December 2010	9,508,617	150,903	384	23,724	(7,571,978)	2,111,650
Issuance of right shares (note 21.1)	10,000,000	-	-	(7,000,000)	-	3,000,000
Share issue cost [note (i)]	-	-	-	-	(41,496)	(41,496)
Total comprehensive loss for the year	-	-	-	-	(2,369,925)	(2,369,925)
Transferred from statutory reserve to accumulated losses [note (ii)]	-	(150,903)	-	-	150,903	-
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	24,295	24,295
Balance as at 31 December 2011	19,508,617	-	384	(6,976,276)	(9,808,201)	2,724,524

Note (i) - Represents legal cost and listing fee paid in connection with right issue.

Note (ii) - Represents transfer made during the year in accordance with the decision of the Board of Directors of the Bank and as allowed under Section 21 of the Banking Companies Ordinance, 1962.

The annexed notes 1 to 45 form an integral part of these financial statements.

President and Chief Executive | Director | Director | Director

FOR THE YEAR ENDED 31 DECEMBER 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 KASB Bank Limited (the Bank) was incorporated in Pakistan on 13 October 1994 as a public limited company under the Companies Ordinance, 1984. The Bank received banking license from the SBP on 9 January 1995 and obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on 11 January 1995. The Bank is engaged in commercial banking, consumer banking, corporate and investment banking and related services through 104 branches (including 34 sub branches) [2010: 104 branches (including 34 sub branches)] operating in 43 cities. The Bank is listed on all the Stock Exchanges in Pakistan. KASB Finance (Private) Limited is the holding company of the Bank.

1.2 The SBP vide BSD Circular No.7 dated 15 April 2009 set the Minimum Capital Requirement (MCR) for Banks up to Rs.10,000 million to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2011 is Rs. 8,000 million. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank. The paid up capital of the Bank (net of losses) as of 31 December 2011 amounted to Rs. 2,724.140 million and CAR, as disclosed in note 41.4, remained below the prescribed level of 10%.

In view of the above shortfall in meeting the regulatory capital requirements and the financial condition of the Bank, the management and sponsors of the Bank have taken the following steps:

- During the year ended 31 December 2010, the sponsors of the Bank entered into an agreement with a foreign investor for equity investment into the Bank. Accordingly, during the current year, the Bank has issued additional capital through right issue of shares which resulted in net equity injection of Rs. 3,000 million.

- The Bank intends to raise further capital through its sponsors and strategic foreign investors to meet the regulatory capital requirements. Additionally, the Bank has plans to augment its TIER II capital through sub-ordinated debt in the near future.

- The management of the Bank has prepared financial projections for a period of five years for the purpose of setting the future course of action for the Bank. These projections are approved by the Board and envisage additional capital injection through equity and sub-ordinated debt into the Bank and indicate future profitable operations based on various assumptions such as growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc.

- The Bank has sought an extension of time from the SBP till 30 June 2012 to finalise its capital injection plan and expects a favourable response from the SBP in this regard.

Based on the above, the Bank's management and the Board have made an assessment and are satisfied that the Bank has adequate resources to continue its business in the foreseeable future and therefore, have prepared these financial statements on a going concern basis. In making such assessments, the Board has taken into account the material uncertainties with respect to events or conditions that may impact the recapitalisation plan of the Bank and consequently, its sustainability in future.

2. BASIS OF PRESENTATION

2.1 These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

2.3 These are separate financials statements of the Bank in which investment in subsidiaries and associates are reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) , the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the SECP and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.

3.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4. BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention except for, certain investments, land and buildings and derivative financial instruments which are revalued as referred to in notes 5.4, 5.7 and 5.11 below.

4.2 These financial statements are presented in Pak Rupees which is the Bank's functional currency and presentation currency.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Bank has adopted the following revised and amended IFRSs and related interpretations which became effective during the year:

IAS 24 - Related Party Disclosures (Revised)
IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wordings. These improvements are listed below:

IFRS 3 - Business Combinations
- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of non-controlling interests
- Un-replaced and voluntarily replaced share-based payment awards

IAS 1 - Presentation of Financial Statements
- Clarification of statement of changes in equity

IAS 27 - Consolidated and Separate Financial Statements
- Transition requirements for amendments made as a result of IAS 27 "Consolidated and Separate Financial Statements"

IAS 34 - Interim Financial Reporting
- Significant events and transactions

IFRIC 13 - Customer Loyalty Programmes
- Fair value of award credits

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on these financial statements.

5.2 Cash and cash equivalents

These include cash and balances with treasury banks and balances with other banks less overdrawn nostro accounts.

5.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase contract

Securities sold subject to a repurchase contract (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued over the period of the contract and recorded as an expense.

Purchase under resale contract

Securities purchased under a contract to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings. These transactions are accounted for on the settlement date. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis over the period of the contract and recorded as income.

5.4 Investments (other than investments in subsidiaries and associates)

These are classified as follows:

Held-for-trading
These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity
These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

Available-for-sale
These are investments which do not fall under the held-for-trading and held-to-maturity categories.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investments.

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investments. Held for trading investments are initially measured at fair value and transaction costs are expensed in the profit and loss account.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity are subsequently stated at market values. Investments classified as held to maturity are carried at amortised cost. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the statement of financial position below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Impairment loss in respect of investments (other than debt securities) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations for Corporate / Commercial Banking issued by the SBP (Prudential Regulations). In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of assets is taken to the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

5.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less provision for impairment, if any.

5.6 Advances

Loans and advances

These are stated net of specific and general provisions, which are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. Advances in respect of which the Bank does not expect any recoveries in future years are written off.

Net investment in finance lease

These are stated at net of provisions made against non-performing leases. Leases where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

5.7 Operating fixed assets

Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. Other operating assets are carried at cost less accumulated depreciation and impairment, if any.

Depreciation on fixed assets is charged to the profit and loss account applying the straight line method in accordance with the rates specified in note 13.2 to the financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation of fixed assets is credited to the “surplus on revaluation of assets" account shown below equity. The Bank has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and

- an amount equal to incremental depreciation for the year (net of deferred taxation) is transferred from surplus on revaluation of assets to accumulated loss through statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

Gains / losses on disposal of fixed assets, if any, are recognised in the profit and loss account currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to accumulated loss.

Tangible operating assets - leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and impairment, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods. The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Bank.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment, if any. Amortization is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortized on prorata basis i.e. full month amortization in the month of purchase and no amortization in the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less impairment in value, if any.

Capital work-in-progress

These are stated at cost less accumulated impairment, if any.

5.8 Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at cost less accumulated impairment, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as referred to in note 5.10 below. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.9 Non-banking assets acquired in satisfaction of claims

These are initially measured at the settlement value assigned for the purpose of extinguishment of borrowers' liabilities. Subsequent to initial recognition, these are carried at lower of their carrying values and fair values. Any resulting impairment loss is taken to profit and loss account currently. For subsequent increase in fair value, gain is recognized only to the extent it reverses previously recognized impairment loss.

5.10 Impairment of non-financial assets, goodwill and investments in subsidiaries and associates

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank's estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an assets or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill and intangible assets having indefinite useful life, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exists or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceeds its carrying recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss account.

Impairment losses relating to goodwill and intangible assets having indefinite useful life are not reversed in future periods.

5.11 Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

Derivative financial instruments

These are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the Bank has a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

5.12 Provisions

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.13 Provisions against off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Bank's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.14 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.15 Employees' benefits

Defined contribution plan

The Bank operates a contributory provident fund for all eligible employees to which equal monthly contributions at the rate of 8.33% of basic salary are made by both the Bank and the employees. The contributions are recognised as employee benefit expense when they are due.

Defined benefit scheme

The Bank operates an approved unfunded gratuity scheme for all eligible employees. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense in the profit and loss account.

5.16 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognized on receipt basis. Interest / return / markup on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.

Dividend income is recognised when the right to receive is established.

Gain or loss on sale of investments is recognised in profit and loss account in the year in which it arises.

Fees, commission and brokerage income is recognised as services are performed.

Other income is recognised on accrual basis.

5.17 Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

5.18 Share issue cost

Share issue cost directly attributable to issuance of shares is recognised as a deduction from equity.

5.19 Dividends and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of IAS 10, "Events after the Balance Sheet Date" in the year in which they are approved / transfers are made.

5.20 Earnings per share

The Bank presents basic and diluted earnings / loss per share for its shareholders. Basic earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted earnings / loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.21 Segment reporting

The Bank has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segments within the Bank have been categorised into the following classifications of business segments in accordance with the requirements of the SBP:

(a) Business segments

Commercial banking

This includes strategic partnership with corporate and SME sector entities to provide working capital financing, trade financing and cash management services, project finance, real estate, export finance, leasing, lending, guarantees, bills of exchange and deposits.

Retail banking

This includes mortgage finance and personal loans to individual customers.

Trading and sales

This includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Corporate finance

This includes services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, debts (government and high yield), equity, syndication and secondary private placement.

(b) Geographical segments

The operations of the Bank are currently based only in Pakistan.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has exercised judgments and estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

6.1 Basis of preparation of financial statements

As referred to in note 1.2 to the financial statements, the Bank's management and the Board have made an assessment and are satisfied that the Bank has adequate resources to continue in business on a sustainable basis for the foreseeable future and consequently, would be able to realise its assets and discharge its liabilities in the normal course of business. Therefore, the financial statements of the Bank have been prepared on a going concern basis.

6.2 Provision against non-performing loans and advances

The Bank reviews its loan portfolio to assess amount of non-performing loans and determine provision required there against on a quarterly basis. Provisions are made in accordance with the requirements of Prudential Regulations and charged to profit and loss account. These regulations prescribe an age based criteria and subjective evaluation of advances by the banks for classification of non-performing loans and advances. The provision against such non-performing loans and advances is made at specified percentages as prescribed under Prudential Regulations after taking into account the forced sale value of collaterals held by the Bank. Such regulations also require the Bank to maintain general provision against consumer advances at specified percentage of consumer's portfolio.

6.3 Impairment of investments

The Bank assesses at each reporting date whether there is an indication of impairment of any of its investments in subsidiaries and associates. In case such indications exist, the Bank estimates the recoverable amount of investments which is the higher of investments' fair value less cost to sell and their value in use determined on the basis of estimated future cash flows. The determination of value in use requires judgment and estimates regarding the future cash flows and discount rates as disclosed in note 11.3.2 to the financial statements.

The Bank reviews its investment in debt securities on a quarterly basis, to assess whether they are impaired, in accordance with the requirements of Prudential Regulations.

The Bank also records impairment charge on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

6.4 Goodwill and intangible assets having indefinite useful life

The Bank carries out annual impairment testing in respect of the carrying value of goodwill and intangible assets having indefinite useful lives. Such impairment testing involves determination of the recoverable amount of the CGUs to which such asset pertains. The estimates and assumptions used for such impairment testing are disclosed in note 15.2.1 to the financial statements.

6.5 Deferred tax assets

These are recognized in respect of tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The factors considered by the management in this respect are detailed in note 14.2 to the financial statements.

6.6 Defined benefit scheme

The cost of employee's gratuity scheme is determined using an actuarial valuation which involves assumptions about discount rates and future salary increases as disclosed in note 35 to the financial statements.

7. STANDARDS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

	Effective date (accounting periods beginning on or after)
IAS 1 – Presentation of Financial Statements - Presentation of items of comprehensive income	01 July 2012
IAS 12 – Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits - (Amendment)	01 January 2013

The Bank expects that the adoption of the above revisions and amendments of the standards will not materially affect the Bank's financial statements in the period of initial application other than the amendments to IAS-19 ' Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e, the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

The Bank is currently assessing the impact of the above amendments which are effective from 1 January 2013 on the financial statements . However, it is expected that the adoption of the said amendments will result in change in the Bank's accounting policy related to recognition of actuarial gains and losses as referred to in note 5.7 to the financial statements.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by SECP for the purpose of applicability in Pakistan.

	IASB Effective date (annual periods beginning on or after)
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurement	01 January 2013

	Note	2011	2010
		(Rupees in '000)	
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand :			
Local currency		904,262	895,588
Foreign currency		292,377	231,350
National Prize Bonds		4,628	3,113
		1,201,267	1,130,051
With State Bank of Pakistan in:			
Local currency current account	8.1	1,759,624	1,674,484
Foreign currency current account	8.2	2,381	3,437
Foreign currency deposit account	8.3	1,599,235	256,967
		3,361,240	1,934,888
With National Bank of Pakistan in local currency current account		260,090	207,581
		4,822,597	3,272,520

8.1 Represent accounts maintained with the SBP as per the requirements of Section 36 of the SBP Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by SBP.

8.2 Represents US Dollar Settlement Account maintained with SBP.

8.3 Represent foreign currency cash reserves maintained with SBP equivalent to at least 20 percent of the Bank's foreign currency deposits mobilised under the FE-25 scheme.

	Note	2011	2010
		(Rupees in '000)	
9. BALANCES WITH OTHER BANKS			
In Pakistan			
Current accounts		82,743	102,482
Outside Pakistan			
Current accounts		7,130,483	58,583
Deposit accounts	9.1	3,431,568	38,211
		10,562,051	96,794
		10,644,794	199,276

9.1 These carry interest rates ranging from 0.1% to 3.6% (2010: 2.5% to 4%) per annum.

	Note	2011	2010
10. LENDINGS TO FINANCIAL INSTITUTIONS			
In local currency			
Clean placement	10.1	334,400	40,000
Repurchase agreement lendings (Reverse Repo)	10.2 & 10.3	288,283	-
		622,683	40,000

10.1 These carry mark-up rates ranging from 12.5% to 15.85% (2010: 15.5%) per annum and have matured in January 2012.

10.2 These carry mark-up rate of 11.9% (2010: Nil) per annum and have matured in January 2012.

10.3 Securities held as collateral against repurchase agreement lendings

	Note	2011 Held by Bank	2011 Further given as collateral	2011 Total	2010 Held by Bank	2010 Further given as collateral	2010 Total
		---Rupees in '000---					
Market Treasury Bills	10.3.1	288,283	-	288,283	-	-	-

10.3.1 As of 31 December 2011, the market value of the above securities amounted to Rs. 299.875 million (2010: Nil).

11. INVESTMENTS

11.1 Investments by types

	Note	2011 Held by Bank	2011 Given as collateral	2011 Total	2010 Held by Bank	2010 Given as collateral	2010 Total
		---Rupees in '000---					Restated (Note 43)
Available for sale securities							
Market Treasury Bills		9,160,103	-	9,160,103	3,949,452	981,149	4,930,601
Pakistan Investment Bonds		790,937	-	790,937	551,760	-	551,760
Ordinary Shares of listed companies	11.6	64,678	-	64,678	66,939	-	66,939
Ordinary Shares of unlisted companies	11.7	1,171,029	-	1,171,029	1,171,029	-	1,171,029
Listed Term Finance Certificates	11.8	315,243	-	315,243	381,635	-	381,635
Unlisted Term Finance Certificates	11.9	674,384	-	674,384	776,672	-	776,672
Open ended mutual funds		-	-	-	500,000	-	500,000
		12,176,374	-	12,176,374	7,397,487	981,149	8,378,636
Held to maturity securities	11.1.1						
Pakistan Investment Bonds		521,424	-	521,424	640,344	-	640,344
Unlisted Term Finance Certificates	11.9	429,604	-	429,604	1,236,604	-	1,236,604
		951,028	-	951,028	1,876,948	-	1,876,948
Associates	11.10	2,200,839	-	2,200,839	2,200,839	-	2,200,839
Subsidiaries	11.11	3,051,685	-	3,051,685	3,051,686		3,051,686
Investments at cost		18,379,926	-	18,379,926	14,526,960	981,149	15,508,109
Less: Provision for diminution in the value of investments	11.3	(1,464,870)	-	(1,464,870)	(1,513,563)	-	(1,513,563)
Investments - net of provisions		16,915,056	-	16,915,056	13,013,397	981,149	13,994,546
Deficit on revaluation of available for sale investments	22.2	(31,308)	-	(31,308)	(101,184)	(417)	(101,601)
Total investments after revaluation		**16,883,748**	**-**	**16,883,748**	**12,912,213**	**980,732**	**13,892,945**

11.1.1 The aggregate market value of held to maturity securities as of 31 December 2011 amounted to Rs. 911.181 million (2010: Rs.1,785.415 million).

	Note	2011	2010
		(Rupees in '000)	
11.2 Investments by segment:			Restated (Note 43)
Federal Government Securities			
Market Treasury Bills	11.4	9,160,103	4,930,601
Pakistan Investment Bonds	11.5	1,312,361	1,192,104
		10,472,464	6,122,705
Fully Paid up Ordinary Shares			
Listed Companies	11.6	64,678	66,939
Unlisted Companies	11.7	1,171,029	1,171,029
		1,235,707	1,237,968
Term Finance Certificates			
Listed Companies	11.8	315,243	381,635
Unlisted Companies	11.9	1,103,988	2,013,276
		1,419,231	2,394,911
Units of Mutual Funds		-	500,000
Associates	11.10		
Listed			
KASB Asset Allocation Fund		298,424	298,424
KASB Capital Protected Gold Fund		71,039	71,039
KASB Cash Fund		28,961	28,961
KASB Income Opportunity Fund		328,794	328,794
KASB Islamic Income Opportunity Fund		103,525	103,525
KASB Stock Market Fund		142,287	142,287
Unlisted			
KASB International Limited		41,867	41,867
New Horizon Exploration and Production Limited		558,000	558,000
Shakarganj Food Products Limited		627,942	627,942
		2,200,839	2,200,839
Subsidiaries	11.11		
Listed			
KASB Securities Limited		2,394,937	2,394,937
KASB Modaraba		91,675	91,676
Unlisted			
KASB Funds Limited		432,302	432,302
KASB Technology Services Limited		104,771	104,771
KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited]		28,000	28,000
		3,051,685	3,051,686
Investments at cost		18,379,926	15,508,109
Less: Provision for diminution in the value of investments	11.3	(1,464,870)	(1,513,563)
Investment - net of provision		16,915,056	13,994,546
Deficit on revaluation of available for sale investments	22.2	(31,308)	(101,601)
Total Investments after revaluation		16,883,748	13,892,945

11.3 Particulars of provision for diminution in the value of investments

	2011	2010
Opening balance	1,513,563	1,254,926
Charge for the year	272,071	333,491
Reversal during the year	(305,145)	-
	(33,074)	333,491
Adjustment of provision upon disposal of investments	-	(74,854)
Amount written off	(15,619)	-
Closing balance	1,464,870	1,513,563

	Note	2011	2010
		(Rupees in '000)	
11.3.1 Particulars of provision in respect of type and segment			
Available for sale investments			
Unlisted Term Finance Certificates		82,000	120,761
Ordinary shares of listed companies		19,062	17,360
Ordinary shares of unlisted company		5,680	5,680
		106,742	143,801
Associates	11.3.2		
KASB Stock Market Fund		46,560	34,991
KASB International Limited		17,911	-
KASB Asset Allocation Fund		10,216	-
New Horizon Exploration and Production Limited		-	250,000
		74,687	284,991
Subsidiaries	11.3.2		
KASB Securities Limited		928,670	730,000
KASB Funds Limited		300,000	300,000
KASB Technology Services Limited		54,771	54,771
		1,283,441	1,084,771
		1,464,870	1,513,563

11.3.2 During the year, the management has carried out impairment testing of its investments in subsidiaries and associates as required by IAS 36 – "Impairment of Assets". The recoverable amounts of these investments have been computed using 'value in use' calculations with the investments in certain mutual funds which have been computed on the basis of the investments' 'fair value less cost to sell'.

Value in use computations were performed using discounted cash flows methodology, covering cash flow projections for a period of 5 years with the exception of New Horizon Exploration and Production Limited for which projections were prepared for a period of 30 years based on the expected reserve and field profile. The calculations of 'value in use' are most sensitive to the following assumptions:

	Discount rate	Terminal growth rate
	(%)	(%)
Associates		
New Horizon Exploration and Production Limited	21.7%	-
Shakarganj Food Products Limited	22.4%	5%
Subsidiaries		
KASB Securities Limited	22.6%	8%
KASB Modaraba	17.3%	8%
KASB Funds Limited	25.8%	8%
KASB Technology Services Limited	19.3%	2.7%
KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited]	24.9%	8%

In addition, the management has used various business assumptions for estimating future cash flows of the respective companies which are based on industry data, historical performance and trends for growth rates, market share etc.

Based on such impairment testing, an additional impairment loss of Rs. 198.670 million and Rs. 39.696 million in respect of the Bank's investment in subsidiaries and associates respectively has been recognised. Further, a reversal of impairment loss previously recognised in respect of the Bank's investment in an associate amounting to Rs. 250 million has been made in these financial statements.

11.4 Market Treasury Bills

These securities have a maturity period of three months to one year (2010: three months to one year), with yield ranging between 11.77% to 13.79% (2010: 11.99% to 13.19 %) per annum. These securities have an aggregate face value of Rs. 9,873 million (2010: Rs. 5,051 million).

11.5 Pakistan Investment Bonds

These securities have a maturity period of three, five and ten years (2010: three, five and ten years) with interest rates ranging between 8% to 13% (2010: 8% to 13%) per annum. These securities have an aggregate face value of Rs. 1,307 million (2010: Rs. 1,147 million).

11.6 Ordinary shares of listed companies - Available for sale

Name of security	Number of shares of Rs.10/- each		Rating		Cost		Market value	
	2011	2010	2011	2010	2011	2010	2011	2010
					------------------- (Rupees in '000) -------------------			
Engro Chemical Pakistan Limited	-	100,000	-	AA	-	19,999	-	19,381
ICI Pakistan Limited	55,000	55,000	-	-	9,903	9,903	6,615	7,933
Network Microfinance Bank Limited*	3,359,198	3,359,198	BBB	BBB+	10,078	10,078	16,762	5,374
Pakgen Power Limited	933,590	-	AA	-	17,738	-	10,512	-
Shell Pakistan Limited	95,000	95,000	-	-	26,959	26,959	18,077	19,780
					64,678	66,939	51,966	52,468

* These shares had been blocked by the Central Depository Company of Pakistan Limited in compliance with BPRD Circular No. 4 dated 22 May 2008 issued by the SBP. However, subsequent to the year end, these shares have been sold to a Group of Investors after obtaining prior approval from the SBP.

11.7 Ordinary shares of unlisted companies - Available for sale

Particulars	Number of shares		Rating		Cost		Carrying value	
	2011	2010	2011	2010	2011	2010	2011	2010
					------------------- (Rupees in '000) -------------------			
						Restated (Note 43)		Restated (Note 43)
Evolvence Capital Limited - incorporated in British Virgin Islands (related party) Face value per share : USD 0.0845/- Breakup value per share: USD 2.59/- (2010: USD 2.40/-) [based on audited financial statements of 31 March 2011] Chief Executive: Mr. Khaled Al Muhairy	5,400,000	5,400,000	-	-	1,155,349	1,155,349	1,155,349	1,155,349
Khushhali Bank Limited Face value per share : Rs. 10/- Breakup value per share: Rs. 13.02/- (2010: Rs. 12.18/-) [based on audited financial statements of 31 December 2010] Chief Executive: Mr. M Ghalib Nishtar	1,000,000	1,000,000	A-1	A-	10,000	10,000	10,000	10,000
Pakistan Export Finance Guarantee Agency Limited Face value per share : Rs. 10/- Breakup value per share: Rs. 0.50/- (2010: Rs. 0.50/-) [based on un-audited financial statements of 30 June 2010] Chief Executive: Mr. S.M. Zaeem	568,044	568,044	-	-	5,680	5,680	-	-
					1,171,029	1,171,029	1,165,349	1,165,349

11.8 Listed Term Finance Certificates - Available for sale

Particulars	No. of certificates of Rs. 5,000/- each		Rating		Cost		Market value	
	2011	2010	2011	2010	2011	2010	2011	2010
					------------------- (Rupees in '000) -------------------			
Allied Bank Limited	2,000	2,000	AA-	AA-	9,992	9,996	9,476	9,616
Telecard Limited	3,000	3,000	D	BBB	5,389	5,334	5,389	5,276
Trust Investment Bank Limited	9,000	9,000	BBB	BBB	21,385	32,051	21,587	32,010
United Bank Limited (2nd Issue)	16,232	16,232	AA	AA	81,137	81,141	77,121	71,097
United Bank Limited (4th Issue)	18,000	18,000	AA	AA	84,985	84,580	89,605	85,541
World Call Telecom Limited	39,348	39,348	BBB	A	112,355	168,533	97,747	163,754
					315,243	381,635	300,925	367,294

11.8.1 Particulars of Listed Term Finance Certificates

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Allied Bank Limited	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and last installment of Rs 4,981 per certificate.	August 2019
Telecard Limited	Six months KIBOR + 3.75%	Semi-annually	Principal to be paid in 13 unequal installments.	May 2015
Trust Investment Bank Limited	Six months KIBOR + 1.85%	Semi-annually	Principal to be paid in 10 installments. First 2 installments of Re. 1 per certificate and subsequent 8 installment of Rs. 625 per certificate.	July 2013
United Bank Limited (2nd Issue)	9.49%	Semi-annually	Principal to be paid in 16 installments. First 15 installments of Rs. 0.10 per certificate and last installment of Rs. 4998.5 per certificate.	March 2013
United Bank Limited (4th Issue)	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and last installment of Rs 4,981 per certificate.	February 2018
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Principal to be paid in 10 installments. First 3 installments of Re. 1 per certificate and subsequent 7 installments of Rs. 714 per certificate.	October 2013

11.9 Unlisted Term Finance Certificates

Particulars	Note	2011	2010	2011	2010	2011	2010
		No. of certificates of Rs. 5,000/- each		Rating		Cost	
						---- (Rupees in '000) ----	
Available for sale							
Agritech Limited	11.9.1	30,000	30,000	D	CCC	150,016	150,097
Azgard Nine Limited (3rd Issue)	11.9.1	5,600	5,600	D	CCC(RW)	28,045	28,066
Engro Chemical Pakistan Limited		41,640	41,640	AA	AA	209,343	209,447
New Khan Transport Company Limited		-	140	-	-	-	70,762
Nishat Chunian Limited		38,500	39,000	A+	A+	192,500	195,000
Pakistan Mobile Communication (Private) Limited		5,000	5,000	A+	A+	12,480	20,800
Shakarganj Mills Limited	11.9.1	20,000	20,000	D	D	82,000	100,000
Tandlianwala Sugar Mills Limited		-	5,000	-	-	-	2,500
						674,384	776,672
Held to maturity							
Avari Hotel International		60,000	60,000	A-	A-	254,744	254,744
Azgard Nine Limited (3rd Issue)	11.9.1	35,000	35,000	D	CCC(RW)	174,860	174,860
Power Holding (Private) Limited		-	- *	-	-	-	807,000
						429,604	1,236,604
						1,103,988	2,013,276

11.9.1 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Bank has availed relaxation in respect of provisioning against certain non-performing securities to the extent of the Rs. 352.921 million (2010: Rs. 176.359 million).

* Represents Pre-IPO investment.

11.9.2 Particulars of Unlisted Term Finance Certificates

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Agritech Limited	Six months KIBOR + 1.75%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and subsequent 10 installments of Rs. 499.6 per certificate.	November 2014
Azgard Nine Limited	Six months KIBOR + 1%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and subsequent 10 installments of Rs. 499.6 per certificate.	December 2014
Engro Chemical Pakistan Limited	Six months KIBOR + 1.7%	Semi-annually	Bullet payment at the end of term.	March 2018
Nishat Chunian Limited	Three months KIBOR + 2.25%	Quarterly	Principal to be paid in 16 equal installments of Rs. 312.5 per certificate.	September 2015
Pakistan Mobile Communication (Private) Limited	Six months KIBOR + 2.85%	Semi-annually	Principal to be paid in 14 installments. First 8 installments of Re. 1 per certificate and subsequent 6 installments of Rs. 832 per certificate.	June 2013
Shakarganj Mills Limited	Six months KIBOR + 2.75%	Semi-annually	Principal to be paid in 10 equal installments of Rs. 500 per certificate.	September 2014
Avari Hotel Limited	1 year KIBOR + 2.50%	Semi-annually	Principal to be paid in 3 installments. First installment of Rs. 2807.79 per certificate, second installement of Rs. 561.42 per certificate and third installment of Rs. 1630.77 per certificate.	October 2014

	Note	2011	2010	2011	2010
		Number of shares / units		Cost	
				(Rupees in '000)	
11.10 Associates	11.3.2				
KASB Asset Allocation Fund Par value per unit: Rs. 50 /- Net asset value per unit: Rs. 33.60/- (2010: Rs. 43.80/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 69.14% (2010: 66.52%) Management Company - KASB Funds Limited	11.10.1	6,453,449	6,425,641	298,424	298,424
KASB Capital Protected Gold Fund Par value per unit: Rs. 100 /- Net asset value per unit: Rs. 104.1354/- (2010: Rs. 105.26/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: - Direct: 15.96% (2010: 15.80%) - Indirect: 0.01% (2010: 0.01%) Management Company - KASB Funds Limited	11.10.2	798,399	730,948	71,039	71,039
KASB Cash Fund Par value per unit: Rs. 100 /- Net asset value per unit: Rs. 106.1411/- (2010: Rs. 101.01/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: - Direct: 4.73% (2010: 5.83%) - Indirect: 14.47% (2010: 24.38%) Management Company - KASB Funds Limited		287,190	287,190	28,961	28,961
KASB Income Opportunity Fund Par value per unit: Rs. 100 /- Net asset value per unit: 53.9013/- (2010: Rs. 83.92/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: - Direct: 45.94% (2010: 38.42%) - Indirect: 3.93% (2010: Nil) Management Company - KASB Funds Limited		3,361,101	3,361,101	328,794	328,794
KASB Islamic Income Opportunity Fund Par value per unit: Rs. 100 /- Net asset value per unit: Rs. 101.0511/- (2010: Rs. 97.23/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 46.83% (2010: 47.94%) Management Company - KASB Funds Limited		1,037,084	1,037,084	103,525	103,525
KASB Stock Market Fund Par value per unit: Rs. 50 /- Net asset value per unit: Rs. 23.6776/- (2010: Rs. 29.73/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: - Direct: 85.87% (2010: 40.53%) - Indirect: Nil (2010: 23.22%) Management Company - KASB Funds Limited	11.10.1	4,042,500	3,608,482	142,287	142,287
KASB International Limited - incorporated in Mauritius Face value per share: USD 1 /- Break-up value per share: Rs. 84.65/- (2010: Rs. 177.24/-) [based on unaudited financial statements for the period ended 31 December 2011] Percentage of holding: 21.78% (2010: 21.78%) Chief Executive: Mr. Nadir Rahman		283,000	283,000	41,867	41,867
New Horizon Exploration and Production Limited Face value per share: Re. 1 /- and Rs. 10 /- Break-up value per share: Rs. 2.71/- (2010: Rs. 3.16/-) [based on unaudited financial statements for the period ended 31 December 2011] Percentage of holding: - Direct: 25.29% (2010: 26.67%) - Indirect: 15.44% (2010: 16.28%) Chief Executive: Syed Zafar Ahmed	11.10.1	61,600,000	61,600,000	558,000	558,000
Shakarganj Food Products Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 2.72/- (2010: Rs. 2.54/-) [based on unaudited financial statements for the year ended 31 December 2011] Percentage of holding: 40.20% (2010: 40.20%) Chief Executive: Mr. Anjum Saleem		60,950,000	60,950,000	627,942	627,942
				2,200,839	2,200,839

11.10.1 Includes 5,019,070 units of KASB Asset Allocation Fund, 2,429,696 units of KASB Stock Market Fund and 61,600,000 ordinary shares of New Horizon Exploration and Production Limited that have been classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

11.10.2 Includes investment in seed capital of KASB Capital Protected Gold Fund amounting to Rs. 50 million (2010: Rs. 50 million) which is required to be held up till 19 March 2012.

	Note	2011	2010	2011	2010
		Number of shares		Cost	
				(Rupees in '000)	
11.11 Subsidiaries	11.3.2				
KASB Modaraba Face value per certificate: Rs. 10 /- Break-up value per certificate: Rs. 10.83/- (2010: Rs. 10.26/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: - Direct : 36.95% (2010: 36.95%) - Indirect : 14.65% (2010: 14.26%) Chief Executive: Syed Majeed Ullah Husaini		10,446,767	10,446,767	91,675	91,675
KASB Securities Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 9.90/- (2010: Rs. 10.63/-) [based on audited financial statements for the year ended 31 December 2011] Percentage of holding: 77.12% (2010: 77.12%) Chief Executive: Mr. Nadir Rahman	11.11.1	77,121,500	77,121,500	2,394,937	2,394,937
KASB Funds Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 5.84/- (2010: Rs. 5.85/-) [based on audited financial statements for the year ended 31 December 2011] Percentage of holding: - Direct : 58.85% (2010: 58.85%) - Indirect : 8.33% (2010: 8.33%) Chief Executive: Mr. Amer Maqbool		14,123,622	14,123,622	432,302	432,302
KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited] Face value per share: Rs. 10 /- Break-up value per share: Rs. 9.32/- (2010: Rs. 9.26/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 96.02% (2010: 96.02%) Chief Executive: Syed Majeed Ullah Husaini		3,985,000	3,985,000	28,000	28,000
KASB Technology Services Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 2.13/- (2010: Rs. 1.72/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 100% (2010: 100%) Chief Executive: Mr. Faisal Anwar	11.11.1	25,000,000	25,000,000	104,771	104,771
				3,051,685	3,051,685

11.11.1 Represent investment classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

	Note	2011	2010
		(Rupees in '000)	
12. ADVANCES			
Loans, cash credits, running finances, etc. - in Pakistan		32,190,161	32,908,517
Net investment in finance lease - in Pakistan	12.2	939,072	1,223,587
Bills discounted and purchased (excluding market treasury bills)			
Payable in Pakistan		1,034,749	445,695
Payable outside Pakistan		131,020	260,200
		1,165,769	705,895
Advances - gross		34,295,002	34,837,999
Provision against non performing loans and advances			
- Specific provision	12.3	(5,844,770)	(5,290,067)
- General provision	12.4	(13,066)	(20,234)
	12.5	(5,857,836)	(5,310,301)
Advances - net of provisions		28,437,166	29,527,698
12.1 Particulars of advances - gross			
12.1.1 In local currency		34,163,982	34,577,799
In foreign currencies		131,020	260,200
		34,295,002	34,837,999
12.1.2 Short-term (upto one year)		26,326,132	28,678,865
Long-term (over one year)		7,968,870	6,159,134
		34,295,002	34,837,999

12.2 Net investment in finance lease

	2011				2010			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000)							
Lease rentals receivable	661,070	220,214	-	881,284	748,519	428,400	-	1,176,919
Residual value	92,875	76,842	-	169,717	100,390	113,018	-	213,408
Minimum lease payments	753,945	297,056	-	1,051,001	848,909	541,418	-	1,390,327
Finance charges for future periods	(87,502)	(24,427)	-	(111,929)	(111,554)	(55,186)	-	(166,740)
Present value of minimum lease payments	666,443	272,629	-	939,072	737,355	486,232	-	1,223,587

12.3 Particulars of non-performing loans and advances

Advances include Rs. 12,137.249 million (2010: Rs. 9,616.599 million) which have been placed under non-performing status as detailed below:

	2011				
Category of classification	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	1,162,598	-	1,162,598	45,465	45,465
Doubtful	2,145,281	-	2,145,281	635,662	635,662
Loss	8,829,370	-	8,829,370	5,163,643	5,163,643
	12,137,249	-	12,137,249	5,844,770	5,844,770

	2010				
Category of classification	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	941,780	-	941,780	129,645	129,645
Doubtful	2,166,675	-	2,166,675	722,989	722,989
Loss	6,508,144	-	6,508,144	4,437,433	4,437,433
	9,616,599	-	9,616,599	5,290,067	5,290,067

12.4 General provision has been determined at the rate of 1.5% on fully secured regular portfolio of consumer loans and 5% on unsecured regular portfolio of consumer loans in accordance with the requirements of the Prudential Regulations.

12.5 Particulars of provision against non-performing loans and advances

		2011			2010		
	Note	Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		5,290,067	20,234	5,310,301	4,104,983	32,322	4,137,305
Charge for the year		1,222,484	-	1,222,484	1,797,509	-	1,797,509
Reversals		(632,702)	(7,168)	(639,870)	(605,093)	(12,088)	(617,181)
		589,782	(7,168)	582,614	1,192,416	(12,088)	1,180,328
Amounts written off	12.6	(35,079)	-	(35,079)	(7,332)	-	(7,332)
Closing balance		5,844,770	13,066	5,857,836	5,290,067	20,234	5,310,301

12.5.1 In terms of SBP directives, the Bank has availed relaxation in respect of provisioning against non-performing advances of certain borrowers aggregating to Rs. 1,911.356 million (2010: Rs.1,636.79 million). Had the provision been made as per the requirements of Prudential Regulations, the provision against non-performing advances and loss before taxation for the year would have been higher by Rs. 1,066.696 million (2010: Rs. 495.102 million).

12.5.2 The above provision against non-performing advances has been computed after considering the benefit of Forced Sale Value (FSV) of collaterals amounting to Rs. 2,672.294 million (2010: Rs. 1,259.37 million). The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders.

During the year, the SBP has amended the Prudential Regulations for classification and provisioning against non-performing advances with respect to the eligible collaterals and securities held against non-performing advances with effect from 30 September 2011. As per the revised regulation, the Bank is allowed to take the benefit of FSV of the pledged stocks, plant and machinery under charge and mortgaged residential, commercial and industrial properties held as collateral as under:

Mortgaged residential, commercial, and industrial properties (land and building only)	75% for first year 60% for second year 45% for third year 30% for fourth year 20% for fifth year
Plant and machinery under charge	30% for first year 20% for second year 10% for third year
Pledged stock	40% for three years

Previously, the Bank was allowed to take the benefit of FSV of the pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against non-performing advances to the extent of 40 percent for computing provisioning requirements. This change in provisioning methodology has been applied prospectively with effect from 30 September 2011, which has resulted in decrease in provision against non-performing advances and loss before taxation for the year of Rs. 463.640 million.

12.5.3 Particulars of provision against non-performing loans and advances

	2011		2010	
	Specific	**General**	Specific	General
	----------------------- (Rupees in '000) -----------------------			
In local currency	5,844,770	13,066	5,290,067	20,234
In foreign currencies	-	-	-	-
	5,844,770	13,066	5,290,067	20,234

		Note	2011	2010
			(Rupees in '000)	
12.6	**Particulars of write-offs**			
12.6.1	Against provisions		35,079	7,332
	Directly charged to the profit and loss account		7,987	21,505
			43,066	28,837
12.6.2	Write-offs of Rs 500,000/- and above	12.6.3	37,623	22,961
	Write-offs of below Rs 500,000/-		5,443	5,876
			43,066	28,837

12.6.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended 31 December 2010 is given in Annexure - I to these financial statements. However, the write-off of loans does not affect the Bank's right to recover the outstanding loans from these customers.

12.7 Particulars of loans and advances to executives, directors, associated companies, etc.

	Note	2011	2010
		(Rupees in '000)	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		800,170	798,839
Loans granted during the year		176,835	308,836
Repayments during the year		(197,088)	(307,505)
Balance at end of the year		779,917	800,170
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		388	251,555
Adjustment during the year		-	(250,000)
Loans granted during the year		-	-
Repayments during the year		(388)	(1,167)
Balance at end of the year		-	388
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		232,513	189,988
Loans granted during the year		7,431,473	539,935
Repayments during the year		(7,236,359)	(497,410)
Balance at end of the year		427,627	232,513

		Note	2011	2010
			(Rupees in '000)	
13.	**OPERATING FIXED ASSETS**			
	Capital work-in-progress	13.1	811,172	813,942
	Property and equipment	13.2	2,387,289	2,393,774
	Intangible assets	13.3	143,571	171,414
			3,342,032	3,379,130

13.1 Capital work-in-progress

	Note	2011	2010
Advance for acquiring floor / office premises	13.1.1	721,903	721,903
Advances to suppliers and contractors		11,738	3,798
Civil works		14,460	21,712
Computer software		63,071	59,655
Others		-	6,874
		811,172	813,942

13.1.1 Represents advance payment made by the Bank amounting to Rs. 721.903 million for the purchase of 4 floors in KASB Altitude against the aggregate purchase price of Rs. 947 million. The KASB Altitude is being developed/constructed by KASB Developers (Private) Limited (KDPL) and was expected to be completed in January 2012. However, due to the suspension of the development/construction work at certain intervals during the previous years, the project is still under construction. As per an independent valuer report, the value of construction work completed as of 12 July 2011 on the project amounted to Rs. 2,223.627 million. The Bank intends to re-negotiate the terms of the agreement with KDPL and has received a consent for creation of its charge on the property being developed.

13.2 Property and equipment

	COST / REVALUATION							DEPRECIATION						BOOK VALUE	
	As at 1 January 2011	Revalua-tion	Reversal of accumulated depreciation	Additions	Deletions	Reclassi-fications	As at 31 December 2011	As at 1 January 2011	Charge for the year	Reversal of accumulated depreciation	Deletions	Reclassi-fications	As at 31 December 2011	As at 31 December 2011	Rate of depreciation (%)
	(Rupees in '000)														
Owned															
Freehold land	304,181	13,619	-	-	(18,000)	-	299,800	-	-	-	-	-	-	299,800	-
Leasehold land	115,126	7,728	-	-	(35,000)	-	87,854	-	-	-	-	-	-	87,854	-
Buildings and leasehold improvements	1,557,022	168,179	(157,922)	88,258	(18,124)	-	1,637,413	207,720	78,980	(157,922)	(2,065)	-	126,713	1,510,700	5
Furniture and fixtures	210,467	-	-	3,947	(4,785)	-	209,629	76,110	18,420	-	(2,481)	-	92,049	117,580	10
Motor vehicles	257,341	-	-	41,206	(75,510)	-	223,037	78,018	33,713	-	(28,428)	-	83,303	139,734	20
Electrical, office and computer equipment	760,055	-	-	47,795	(4,196)	-	803,654	454,564	125,504	-	(3,837)	-	576,231	227,423	20-33.33
	3,204,192	189,526	(157,922)	181,206	(155,615)	-	3,261,387	816,412	256,617	(157,922)	(36,811)	-	878,296	2,383,091	
Leased															
Motor vehicles	2,433	-	-	-	-	-	2,433	730	365	-	-	-	1,095	1,338	20
Electrical, office and computer equipment	7,153	-	-	-	-	-	7,153	2,862	1,431	-	-	-	4,293	2,860	20-33.33
	9,586	-	-	-	-	-	9,586	3,592	1,796	-	-	-	5,388	4,198	
2011	3,213,778	189,526	(157,922)	181,206	(155,615)	-	3,270,973	820,004	258,413	(157,922)	(36,811)	-	883,684	2,387,289	

	COST / REVALUATION							DEPRECIATION						BOOK VALUE	
	As at 1 January 2010	Revaluation	Reversal of accumulated depreciation	Additions	Deletions	Reclassifications	As at 31 December 2010	As at 1 January 2010	Charge for the year	Reversal of accumulated depreciation	Deletions	Reclassifications	As at 31 December 2010	As at 31 December 2010	Rate of depreciation (%)
	----------(Rupees in '000)----------														
Owned															
Freehold land	286,035	-	-	38,546	(20,400)	-	304,181	-	-	-	-	-	-	304,181	-
Leasehold land	113,448	-	-	5,350	(3,672)	-	115,126	-	-	-	-	-	-	115,126	-
Buildings and leasehold improvements	1,514,320	-	-	72,188	-	(29,486)	1,557,022	146,159	75,855	-	(394)	(13,900)	207,720	1,349,302	5
Furniture and fixtures	163,795	-	-	23,950	(1,825)	24,547	210,467	41,677	17,909	-	(617)	17,141	76,110	134,357	10
Motor vehicles	252,132	-	-	68,852	(63,643)	-	257,341	57,565	37,336	-	(16,883)	-	78,018	179,323	20
Electrical, office and computer equipment	625,682	-	-	145,978	(3,197)	(8,408)	760,055	341,025	131,930	-	(2,473)	(15,918)	454,564	305,491	20-33.33
	2,955,412	-	-	354,864	(92,737)	(13,347)	3,204,192	586,426	263,030	-	(20,367)	(12,677)	816,412	2,387,780	
Leased															
Motor vehicles	2,433	-	-	-	-	-	2,433	365	365	-	-	-	730	1,703	20
Electrical, office and computer equipment	7,153	-	-	-	-	-	7,153	1,431	1,431	-	-	-	2,862	4,291	20-33.33
	9,586	-	-	-	-	-	9,586	1,796	1,796	-	-	-	3,592	5,994	
2010	2,964,998	-	-	354,864	(92,737)	(13,347)	3,213,778	588,222	264,826	-	(20,367)	(12,677)	820,004	2,393,774	

	2011	2010
	(Rupees in '000)	
13.2.1 Carrying amount of temporarily idle properties	77,452	132,120
13.2.2 Cost of fully depreciated assets still in use	335,277	219,098

13.2.3 Details of disposals of property and equipment having original cost or book value exceeding one million rupees or two hundred and fifty thousand rupees respectively are as follows:

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	------------ (Rupees in '000) ------------				
Land and building	20,000	19,842	17,000	Tender	Anwar Munawar - Lahore
Land and building	48,015	46,330	33,000	Tender	Nawaz Aslam - Karachi
Furniture and fixtures	750	663	450	Terms of employment	Sheikh Muhammad Moeen - Ex-employee
Motor vehicle	1,800	1,305	1,305	Terms of employment	Sheikh Muhammad Moeen - Ex-employee
Motor vehicle	1,354	999	999	Terms of employment	Sheikh Muhammad Moeen - Ex-employee
Furniture and fixtures	500	371	83	Terms of employment	Adnan Haider - Ex-employee
Furniture and fixtures	500	346	142	Terms of employment	Ehsan Fazil - Ex-employee
Motor vehicle	1,100	536	536	Terms of employment	Ehsan Fazil - Ex-employee
Motor vehicle	590	391	509	Terms of employment	Mian Azad Chaudary - Ex-employee
Motor vehicle	988	655	692	Terms of employment	Mudassar Aslam - Executive
Motor vehicle	667	584	592	Terms of employment	Fazal Ghafoor - Ex-employee
Motor vehicle	529	317	324	Terms of employment	Javed Iqbal - Ex-employee
Motor vehicle	652	546	595	Terms of employment	Faisal Qureshi - Ex-employee
Motor vehicle	662	579	637	Terms of employment	A Wajid - Ex-employee
Motor vehicle	642	490	530	Terms of employment	Abdul Qadir - Ex-employee
Motor vehicle	667	567	625	Terms of employment	Tariq Nawaz - Ex-employee
Motor vehicle	1,094	616	630	Terms of employment	Adnan Zafar Dada - Ex-employee
Motor vehicle	888	510	521	Terms of employment	Adnan Zafar Dada - Ex-employee
Motor vehicle	590	369	472	Terms of employment	Erfan Saeed - Ex-employee
Motor vehicle	988	593	593	Terms of employment	Aftab Manzoor - Ex-employee
Motor vehicle	590	354	354	Terms of employment	Shabbir Ansari - Ex-employee
Motor vehicle	888	521	521	Terms of employment	Noman Iqbal - Ex-employee
Motor vehicle	529	298	370	Terms of employment	Babar Rafique - Executive
Motor vehicle	590	354	354	Terms of employment	Habib Ur Rehman - Ex-employee
Motor vehicle	529	298	304	Terms of employment	Sohail Anwar - Ex-employee
Motor vehicle	529	298	298	Terms of employment	Noman Arshad - Ex-employee
Motor vehicle	888	499	499	Terms of employment	Naveed Baz Khan - Ex-employee
Motor vehicle	988	605	605	Terms of employment	Omer Saeed - Ex-employee
Motor vehicle	529	291	304	Terms of employment	Adeel Ishaq - Executive
Motor vehicle	529	284	284	Terms of employment	Rehan Aziz - Ex-employee
Motor vehicle	642	465	473	Terms of employment	Muhammad Nadeem - Ex-employee
Motor vehicle	642	449	457	Terms of employment	Muhammad Waseem - Ex-employee
Motor vehicle	881	474	507	Terms of employment	Ali Mohammad Khan - executive
Motor vehicle	590	260	283	Terms of employment	Ali Imam - Executive
Motor vehicle	988	568	655	Terms of employment	Erfan Ahmed Mian - Ex-employee
Motor vehicle	710	462	488	Terms of employment	Tughril Afridi - Ex-employee
Motor vehicle	679	560	560	Terms of employment	Wahid Noor - Ex-employee
Motor vehicle	529	278	278	Terms of employment	Syed Saim Hassan - Ex-employee
Motor vehicle	529	278	291	Terms of employment	Samra Afzal - Former employee
Motor vehicle	590	325	325	Terms of employment	Hasnain Ahmed - Ex-employee
Motor vehicle	529	271	278	Terms of employment	M Nawaz Memon - Ex-employee
Motor vehicle	529	278	278	Terms of employment	Shirley D Souza - Ex-employee
Motor vehicle	685	565	565	Terms of employment	Muhammad Khan Leghari - Executive
Motor vehicle	660	388	388	Terms of employment	Nazir Ahmed - Ex-employee
Motor vehicle	529	265	271	Terms of employment	Shehryar Safdar - Ex-employee
Motor vehicle	642	433	441	Terms of employment	Fatima Adnan - Ex-employee
Motor vehicle	655	385	393	Terms of employment	Javed Mohsin Butt - Ex-employee
Motor vehicle	995	535	547	Terms of employment	Imtiaz Ahmed - Ex-employee
Motor vehicle	529	251	278	Terms of employment	Umar Akhtar Naqvi - Ex-employee
Motor vehicle	529	251	251	Terms of employment	Syed Muhammad Raza - Ex-employee
Motor vehicle	529	251	304	Terms of employment	Muhammad Ali - Executive
Motor vehicle	620	326	326	Terms of employment	Waqar Ghaffoor - Ex-employee
Motor vehicle	1,202	977	1,067	Terms of employment	Muhammad Ilyas - Ex-employee
Motor vehicle	1,263	1,200	1,231	Terms of employment	Abdul Rehman - Ex-employee
Motor vehicle	1,384	1,142	1,159	Terms of employment	Shahabuddin Qureshi - Ex-employee
Motor vehicle	1,359	1,189	1,206	Terms of employment	Masood Karim Shaikh - Ex-employee
Motor vehicle	1,329	1,013	1,030	Terms of employment	Masood Karim Shaikh - Ex-employee
Motor vehicle	1,389	972	990	Terms of employment	Fahim Ahmed Siddiqui - Ex-employee
Motor vehicle	1,450	1,378	1,396	Terms of employment	Farrukh Raza - Ex-employee
Motor vehicle	1,384	1,107	1,142	Terms of employment	Tehmina Ali - Ex-employee
Motor vehicle	1,000	600	600	Terms of employment	Mehboob Afridi - Ex-employee
Motor vehicle	1,354	1,049	1,100	Terms of employment	Hamayun Babar - Ex-employee
Motor vehicle	1,419	1,295	1,313	Terms of employment	Kamran Ali Khan - Ex-employee
Motor vehicle	1,319	890	907	Terms of employment	Fasal Pingal - Ex-employee
Motor vehicle	1,209	846	846	Terms of employment	Yasir Siddiqui - Ex-employee
Motor vehicle	1,000	563	613	Terms of employment	Saulat Qadri - Executive
Motor vehicle	1,270	1,080	1,095	Terms of employment	Altaf Hassan Khan - Ex-employee
Motor vehicle	1,409	740	727	Terms of employment	Khalid Mahmood Salim - Ex-employee
Motor vehicle	1,319	874	874	Terms of employment	Syed Aqeel Ahmed - Ex-employee
Motor vehicle	1,859	1,092	1,162	Terms of employment	Munir Saleem - Executive
Motor vehicle	2,810	567	567	Terms of employment	Munir Saleem - Executive
Motor vehicle	1,354	965	1,049	Terms of employment	Iqbal Haroon - Ex-employee
Motor vehicle	1,259	1,023	1,023	Terms of employment	Muhammad Sabir - Ex-employee
Motor vehicle	1,090	559	559	Terms of employment	Naeem Khan - Ex-employee
Motor vehicle	1,312	836	836	Terms of employment	Arbab Zarak - Ex-employee
Motor vehicle	1,561	761	761	Terms of employment	Shamim Naik - Ex-employee
Motor vehicle	1,461	1,370	1,440	Insurance claim	Adamjee Insurance Limited - Karachi
Motor vehicle	590	325	580	Insurance claim	Adamjee Insurance Limited - Karachi
Motor vehicle	1,079	216	770	Auction	Ahmed Jan- Karachi
	140,210	113,358	98,808		

13.2.4 In accordance with the Bank's accounting policy, the land and buildings have been revalued during the year. The revaluation was carried out by an independent valuer, Maricon Consultants (Private) Limited on the basis of professional assessment of present market values and resulted in a surplus of Rs. 189.526 million over the book value of the respective properties as at the year end.

Had there been no revaluation, the net book value of land and buildings would have been lower by:

	2011	2010
	(Rupees in '000)	
Land	62,503	41,156
Buildings	733,537	603,162
	796,040	644,318

13.3 Intangible assets

	COST				AMORTISATION				BOOK VALUE	
	As at 1 January 2011	Additions	Reclassif-ications	As at 31 December 2011	As at 1 January 2011	Amortisation	Reclassif-ications	As at 31 December 2011	As at 31 December 2011	Rate of amortisation (%)
	(Rupees in '000)									
Computer software	192,560	21,354	-	213,914	131,649	46,124	-	177,773	36,141	33.33
Customer list	30,735	-	-	30,735	9,559	3,073	-	12,632	18,103	10
Foreign affiliate relationship (note 15.2.1)	89,327	-	-	89,327	-	-	-	-	89,327	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	89,353	-	-	89,353	-	
Total	401,975	21,354	-	423,329	230,561	49,197	-	279,758	143,571	

	COST				AMORTISATION				BOOK VALUE	
	As at 1 January 2010	Additions	Reclassif-ications	As at 31 December 2010	As at 1 January 2010	Amortisation	Reclassif-ications	As at 31 December 2010	As at 31 December 2010	Rate of amortisation (%)
	(Rupees in '000)									
Computer software	155,765	23,448	13,347	192,560	78,667	40,305	12,677	131,649	60,911	33.33
Customer list	30,735	-	-	30,735	6,484	3,075	-	9,559	21,176	10
Foreign affiliate relationship	89,327	-	-	89,327	-	-	-	-	89,327	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	22,338	67,015	-	89,353	-	
Total	365,180	23,448	13,347	401,975	107,489	110,395	12,677	230,561	171,414	

	2011	2010
	(Rupees in '000)	
13.3.1 Cost of fully amortised assets still in use	53,610	35,147

14. DEFERRED TAX ASSETS

	Note	2011	2010
		(Rupees in '000)	
			Restated (Note 43)
Deductible temporary differences arising in respect of:			
Carry forward tax losses	14.3	3,103,767	2,608,856
Provision against non-performing loans and advances		1,573,414	1,443,159
Goodwill		86,898	65,198
Provision for diminution in the value of investments		82,610	75,815
Deficit on revaluation of available for sale investments		12,716	30,667
Provision for gratuity		34,542	38,749
Provision for compensated absences		2,037	2,262
Others		5,578	2,689
		4,901,562	4,267,395
Taxable temporary differences arising in respect of:			
Surplus on revaluation of fixed assets		(211,483)	(221,403)
Accelerated tax depreciation		(136,447)	(149,213)
Fair value adjustments relating to net assets acquired upon amalgamation		(450,583)	(382,949)
Net investment in finance leases		(85,227)	(104,878)
Liabilities against assets subject to finance lease		(942)	(1,339)
		(884,682)	(859,782)
	14.2	4,016,880	3,407,613

14.1 Reconciliation of deferred tax

	Note	Balance as at 31 December 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2010	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2011
		(Rupees in '000)						
Deductible temporary differences arising in respect of:								
Carry forward tax losses	14.3	2,237,795	371,061	-	2,608,856	494,911	-	3,103,767
Provision against non-performing loans and advances		1,096,112	347,047	-	1,443,159	130,255	-	1,573,414
Impairment of goodwill		125,769	(60,571)	-	65,198	21,700	-	86,898
Provision for diminution in the value of investments		77,310	(1,495)	-	75,815	6,795	-	82,610
Deficit on revaluation of available for sale investments		26,236	-	4,431	30,667	-	(17,951)	12,716
Provision for gratuity		31,856	6,893	-	38,749	(4,207)	-	34,542
Provision for compensated absences		2,684	(422)	-	2,262	(225)	-	2,037
Others		1,643	1,046	-	2,689	2,889	-	5,578
		3,599,405	663,559	4,431	4,267,395	652,118	(17,951)	4,901,562
Taxable temporary differences arising in respect of:								
Surplus on revaluation of fixed assets		(235,437)	14,034	-	(221,403)	13,510	(3,590)	(211,483)
Accelerated tax depreciation		(157,245)	8,032	-	(149,213)	12,766	-	(136,447)
Fair value adjustments relating to net assets acquired upon amalgamation		(421,243)	38,294	-	(382,949)	(67,634)	-	(450,583)
Net investment in finance leases		(126,387)	21,509	-	(104,878)	19,651	-	(85,227)
Liabilities against assets subject to finance lease		(617)	(722)	-	(1,339)	397	-	(942)
		(940,929)	81,147	-	(859,782)	(21,310)	(3,590)	(884,682)
		2,658,476	744,706	4,431	3,407,613	630,808	(21,541)	4,016,880

14.2 The above deferred tax asset has been recognised in these financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. The estimates of future taxable profits are based on financial projections of the Bank for the next five years approved by the Board. The projections involve certain key assumptions underlying the estimation of future taxable profits estimated including injection of fresh equity in the form of issuance of right shares and issue of a subordinated debt. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio, deposit composition, interest rates, growth of deposits and advances, investment returns, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset. The management believes that it is probable that the Bank will be able to achieve the profits projected in the financial projections and consequently the deferred tax asset will be fully realised in future years.

14.3 As of 31 December 2011, the Bank has accumulated tax losses of Rs. 10,196.231 million (2010 : Rs. 7,453.874 million). The deferred tax on such losses works out to Rs. 3,568.681 million, however the Bank has recognised deferred tax asset on such losses to the extent of Rs. 3,103.767 million in line with the financial projections as referred to in note 14.2 above.

	Note	2011	2010
		(Rupees in '000)	
15. OTHER ASSETS			
Mark-up / return / interest accrued in local currency		941,028	1,154,170
Advances, deposits and prepayments		122,069	205,945
Taxation (payments less provisions)		50,115	47,217
Stationery and stamps in hand		10,421	10,847
Non-banking assets acquired in satisfaction of claims	15.1	810,625	1,061,666
Branch adjustment account		818	2,721
Goodwill - net of impairment	15.2	366,656	431,391
Receivable against sale of securities		-	4,336
Dividend receivable		-	574
Commission receivable		81,948	17,709
Unrealised gain on forward foreign exchange contracts		-	18,726
Lease rental receivable		22,752	19,676
Others		102,374	21,870
		2,508,806	2,996,848
Provision against other assets	15.3	(15,936)	(5,373)
Other assets - net of provisions		2,492,870	2,991,475

15.1 Represent commercial and residential properties acquired by the Bank in satisfaction of borrowers liabilities. The market value of these assets as per the latest valuation carried out by an independent valuer amounted to Rs. 1,025.252 million (2010: Rs. 1,542.646 million).

15.2 Goodwill	2011	Restated (Note 43)
Goodwill recognised on acquisition of:		
International Housing Finance Limited	35,362	35,362
KASB Capital Limited	698,269	698,269
Network Leasing Corporation Limited	144,848	144,848
	878,479	878,479
Less: Impairment of goodwill		
International Housing Finance Limited	35,362	17,681
KASB Capital Limited	331,613	284,559
Network Leasing Corporation Limited	144,848	144,848
	511,823	447,088
	366,656	431,391

15.2.1 During the year, the management has carried out annual impairment tests in respect of goodwill and intangible assets having indefinite useful lives as required by IAS - 36 "Impairments of Assets". Goodwill and foreign affiliate relationship (note 13.3) were allocated to the Investment Banking Group, a CGU. Based on the impairment testing, the management estimated that an additional provision of Rs. 64.736 million was required in respect of goodwill, which accordingly, has been made in the financial statements.

The recoverable amount of the CGU has been determined using discounted cash flow methodology, covering cash flow projections for a period of 5 years, using a pre-tax discount rate of 24% per annum. Management believes that the assumptions used in estimating the future performance of the CGU are consistent with past performance, market position, deals in hand and anticipated market conditions. The growth rate used to extrapolate the cash flows beyond the five year period is 7%.

The calculation of value in use is most sensitive to the following assumptions:

Discount rate

Discount rate reflects management estimates of the rate of return of the CGU and is calculated using Capital Asset Pricing Model.

Terminal growth rate

Terminal growth rate is based on long term nominal growth of the economy from published data and management estimates.

Key business assumptions

These assumptions underlying the projected cash flows of the CGU are based on the industry and economic data to assess the overall current and projected economic scenario, anticipated transaction activity, market position of the unit and relationship with the foreign affiliates and transaction mandates going forward in addition to deals in hand thereby increasing revenues while maintaining margins.

		2011	2010
		(Rupees in '000)	
15.3 Movement in provision against other assets			
Opening balance		5,373	4,707
Charge for the year against non-banking assets		129,135	666
Adjustment upon disposal/reclassification of non-banking assets to operating fixed assets		(118,572)	-
Closing balance		15,936	5,373
16. BILLS PAYABLE			
In Pakistan		891,579	541,041
17. BORROWINGS			
In Pakistan		3,150,185	6,110,188
Outside Pakistan		1,277,086	28,019
		4,427,271	6,138,207
17.1 Particulars of borrowings with respect to currencies			
In local currency		3,150,185	6,110,188
In foreign currencies		1,277,086	28,019
		4,427,271	6,138,207
17.2 Details of borrowings			
Secured			
Borrowings from the SBP			
- Export refinance scheme	17.2.1	2,966,352	3,665,636
- Long term financing for export oriented projects	17.2.2	71,227	124,896
- Long term finance for imported and locally manufactured plant and machinery	17.2.3	87,410	370,628
		3,124,989	4,161,160
Repurchase agreement borrowings		-	980,276
Borrowings from financial institutions	17.2.4	25,196	68,752
		3,150,185	5,210,188
Unsecured			
Call money borrowings from financial institutions	17.2.5	697,151	900,000
Overdrawn nostros		579,935	28,019
		1,277,086	928,019
		4,427,271	6,138,207

17.2.1 These carry mark-up rate of 10% (2010: 7.5% to 9.0%) per annum with maturities upto June 2012.

17.2.2 These carry mark-up rate of 5% (2010: 5%) per annum with maturities upto July 2013.

17.2.3 These carry markup rates ranging from 6.5% to 7.2% (2010: 6.5% to 9.5%) per annum with maturities upto December 2014.

17.2.4 These carry mark-up rates ranging from 1.5% to 6.69% (2010: 1.5% to 8.3%) per annum with maturities upto September 2013.

17.2.5 These carry mark-up rate of 1.25% (2010: 14.0% to 14.5%) per annum with maturities upto May 2012.

		2011	2010
		(Rupees in '000)	
18.	**DEPOSITS AND OTHER ACCOUNTS**		
	Customers		
	Fixed deposits	21,124,548	23,584,498
	Savings deposits	17,989,212	13,991,606
	Current accounts- Non-remunerative	21,189,383	6,818,860
	Margin deposits - Non -remunerative	561,696	383,388
		60,864,839	44,778,352
	Financial Institutions		
	Remunerative deposits	379,284	1,474,219
	Non-remunerative deposits	18,773	21,616
		398,057	1,495,835
		61,262,896	46,274,187
18.1	**Particulars of deposits**		
	In local currency	45,174,319	44,951,590
	In foreign currencies	16,088,577	1,322,597
		61,262,896	46,274,187

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011			2010		
	Minimum lease payments	**Financial charge for future periods**	**Principal outstanding**	Minimum lease payments	Financial charge for future periods	Principal outstanding
	(Rupees in '000)					
Not later than one year	1,510	-	1,510	692	32	660
Later than one year and not later than five years	-	-	-	1,510	-	1,510
	1,510	-	1,510	2,202	32	2,170

The Bank has entered into various lease agreements with leasing companies for the lease of equipment and vehicles. Monthly lease rentals include financial charges ranging between 15.23% to 16.24% (2010: 15.23% to 16.24%) per annum. The Bank has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

		Note	2011	2010
			(Rupees in '000)	
20.	**OTHER LIABILITIES**			
	Mark-up / return / interest payable in local currency		696,012	764,605
	Mark-up / return / interest payable in foreign currencies		2,340	1,230
	Accrued expenses		180,390	101,049
	Security deposit against lease		168,132	211,274
	Provision for compensated absences	20.1	5,820	6,464
	Provision for gratuity	35	98,691	110,710
	Unclaimed dividends		604	604
	Unearned commission income		34,528	12,666
	Withholding tax payable		12,893	14,907
	Federal excise duty payable		5,650	4,402
	Unrealised loss on forward foreign exchange contracts		68,940	-
	Others		115,025	63,510
			1,389,025	1,291,421

20.1 Represents provision for compensated absences made in respect of the liability of the Bank towards leaves accumulated by its employees as at December 2005. No further provision is made pursuant to the decision of the management to discontinue this benefit from that date.

21. SHARE CAPITAL

Authorised capital

2011	2010		Note	2011	2010
(Number of Shares)				(Rupees in '000)	
2,500,000,000	2,500,000,000	Ordinary shares of Rs. 10/- each		25,000,000	25,000,000

Issued, subscribed and paid-up capital

2011	2010		Note	2011	2010
		Ordinary shares of Rs. 10/- each			
1,263,642,172	263,642,172	Issued for cash	21.1	12,636,422	2,636,422
207,809,549	207,809,549	Issued as bonus shares		2,078,095	2,078,095
518,141,783	518,141,783	Issued on amalgamations for consideration other than cash	21.2	5,181,418	5,181,418
(38,731,842)	(38,731,842)	Cancelled shares		(387,318)	(387,318)
1,950,861,662	950,861,662			19,508,617	9,508,617

21.1 During the year, the Bank has issued 1,000 million shares of face value of Rs. 10/- per share at a discounted subscription price of Rs. 3/- per share.

21.2 Represents shares issued on amalgamations are as follows ;

	2011	2010
	(Number of Shares)	
International Housing Finance Limited	58,500,000	58,500,000
KASB & Company	89,001,900	89,001,900
KASB Capital Limited	361,797,538	361,797,538
KASB Leasing	8,834,942	8,834,942
Network Leasing Corporation Limited	7,403	7,403
	518,141,783	518,141,783

21.3 As of 31 December 2011, ordinary shares of Rs. 10/- each were held by the holding company, associated company and other related parties of the Bank as under :

	2011	2010
Holding company	1,166,807,649	-
Associated company	19,858,649	19,858,649
Other related parties	464,603,330	454,752,629

22. SURPLUS ON REVALUATION OF ASSETS - net of tax

	Note	2011	2010
		(Rupees in '000)	
Operating fixed assets	22.1	584,557	422,915
Available for sale investments	22.2	(18,592)	(70,934)
		565,965	351,981

22.1 Operating fixed assets

	Note	2011	2010
Balance at the beginning of the year		644,318	695,693
Surplus during the year upon revaluation of land and buildings	13.2	189,526	-
Transfer to accumulated losses in respect of incremental depreciation charged during the year		(37,804)	(51,375)
		796,040	644,318
Related deferred tax liability:			
Balance at the beginning of the year		221,403	235,437
Surplus during the year upon revaluation of land and buildings		3,589	-
Transfer to accumulated losses in respect of incremental depreciation charged during the year		(13,509)	(14,034)
		211,483	221,403
		584,557	422,915

		2011	2010
		(Rupees in '000)	
22.2	**Available for sale investments**		
	Federal Government Securities	(23,342)	(63,413)
	Ordinary shares of listed companies	6,352	2,889
	Listed Term Finance Certificates	(14,318)	(14,341)
	Units of open ended mutual funds	-	(26,736)
		(31,308)	(101,601)
	Related deferred tax asset	12,716	30,667
		(18,592)	(70,934)

23. CONTINGENCIES AND COMMITMENTS

23.1 Transaction-related contingent liabilities

	2011	2010
Includes performance bonds, bid bonds, warranties advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:		
Government	8,089,482	9,044,031
Others	1,935,270	1,226,744
	10,024,752	10,270,775

23.2 Trade-related contingent liabilities

	2011	2010
Letters of credit	8,684,795	2,867,131
Acceptances	2,803,140	1,657,589
	11,487,935	4,524,720

23.3 Taxation

(i) The income tax returns of the Bank have been filed and tax assessments have been made by the tax authorities upto and including the tax year 2011.

For tax years 2003 and 2004, the Commissioner Income Tax Appeals (CIT Appeals) has passed appellate orders on account of certain disallowances in respect of income from carry over transactions, provision against non performing advances, bad debts and certain other items having an aggregate tax impact of Rs. 33.748 million (2010: Rs. 33.748 million). The Bank has preferred appeal before Income Tax Appellate Tribunal (ITAT) against the above referred orders of the CIT Appeals.

For tax years 2005 to 2009, the assessments of the Bank have been amended by the Taxation Officer by disallowing certain expenses / deductions including income from carry over transactions, provision for non performing advances, concessional loans to employees, amortisation of goodwill and impairment of investments having an aggregate tax impact of Rs. 757.487 million (2010: 785.953 million). The Bank has preferred appeals before the CIT Appeals against the above referred amendments of the Taxation Officer.

Income tax assessments of IHFL (amalgamated into the Bank during the year ended 31 December 2007) for tax years 2005 and 2006 have also been amended by the Taxation Officer by disallowing certain deductions including income from carry over transactions, gain on sale of investments, provision for doubtful debts and certain other items having an aggregate tax impact of Rs. 25.881 million (2010: Rs. 35.974 million). The Bank has preferred appeals before the CIT Appeals and ITAT for tax year 2005 and 2006 respectively against the above referred disallowances.

The aggregate financial impact of the above matters works out to be Rs. 817.116 million (2010: Rs. 855.675 million). The management, based on the opinion of its tax advisor, expects a favourable outcome of the above tax matters, however, as a matter of prudence, tax impact to the extent of Rs. 513,396 million (2010: Rs. 554.435 million) has been recognised in these financial statements by reducing the related deferred tax asset.

(ii) The income tax returns of the Bank for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2011.

For tax years 2003, 2004 and 2005 the income tax authorities of AJK region has passed appellate orders by adding interest on surplus funds transferred to head office, resulting in an additional tax demand of Rs. 11.172 million (2010: Rs. 11.172 million). The Bank has filed reference with the Azad Kashmir High Court against such additions for tax years 2003 and 2004. For tax year 2005, the Bank's appeal is pending before the Commissioner Income Tax (Appeals) - AJK.

The management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and consequently no additional provision has been considered necessary in these financial statements.

		Note	2011	2010
			(Rupees in '000)	
23.4	**Commitments in respect of forward exchange contracts**			
	Purchase		11,445,273	3,547,188
	Sale		6,541,997	2,429,361
23.5	**Commitments for the acquisition of operating fixed assets**	23.5.1	270,067	275,029

23.5.1 Includes Rs. 226.121 million committed to KDPL (as more fully explained in note 13.1.1 to the financial statements).

23.6 Commitment to extend credits

The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

24. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities". These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

		2011	2010
		(Rupees in '000)	
25.	**MARK-UP / RETURN / INTEREST EARNED**		
	On loans and advances		
	Customers	3,194,696	3,854,733
	Financial institutions	25,886	69,133
		3,220,582	3,923,866
	On investments		
	Available for sale securities	1,178,129	899,363
	Held to maturity securities	57,022	59,070
		1,235,151	958,433
	On deposits with financial institutions	10,381	9,743
	On securities purchased under resale agreements	51,092	124,247
	On call money lendings	-	771
		4,517,206	5,017,060
26.	**MARK-UP/ RETURN / INTEREST EXPENSED**		
	Deposits	4,338,667	4,438,556
	Borrowings from the SBP	351,454	309,864
	Securities sold under repurchase agreements	175,416	151,419
	Call borrowings	157,519	130,502
	Other borrowings	2,604	5,015
	Amortisation of premium on securities	27,240	28,785
		5,052,900	5,064,141
27.	**GAIN ON SALE / REDEMPTION OF SECURITIES**		
	Federal Government securities	162,705	9
	Term finance certificates	-	375
	Open-end mutual funds	(36,775)	10,528
	Ordinary shares of listed companies	820	99,563
		126,750	110,475

		Note	2011	2010
			(Rupees in '000)	
28.	**OTHER INCOME**			
	Rent on property		5,965	4,195
	Gain on sale of fixed assets - net		-	6,960
	Locker rent		4,842	12,478
	Processing fee and cheque return charges		12,411	13,147
	Others		38,634	22,423
			61,852	59,203
29.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits		981,497	1,036,209
	Charge in respect of defined benefit scheme	35.2	12,371	33,880
	Contribution to defined contribution plan		34,903	35,774
	Rent, taxes, insurance and electricity		440,775	416,998
	Legal and professional charges		53,281	129,690
	Communication charges		110,631	95,987
	Repairs and maintenance		105,306	111,774
	Finance charge on lease obligations		34	506
	Stationery and printing		38,650	37,669
	Advertisement and publicity		74,393	50,267
	Depreciation		258,413	264,826
	Amortisation		49,198	110,395
	Auditors' remuneration	29.1	11,119	13,320
	Vehicle running expenses		7,420	9,081
	Brokerage and commission		3,850	2,950
	Security charges		60,983	63,568
	Fee and subscription		38,937	32,709
	Entertainment		15,691	16,848
	Travelling expenses		16,552	22,900
	Donations		-	2,558
	Others		9,283	7,249
			2,323,287	2,495,158
29.1	**Auditors' remuneration**			
	Audit fee		2,525	2,300
	Fee for half yearly review		775	700
	Special certifications and sundry services		7,660	9,100
	Out-of-pocket expenses		159	1,220
			11,119	13,320
30.	**OTHER CHARGES**			
	Impairment on goodwill	15.2.1	64,736	-
	Penalties imposed by the SBP		47,855	925
	Loss on sale of fixed assets - net		15,195	-
			127,786	925

	Note	2011	2010
		(Rupees in '000)	

31. BASIC AND DILUTED LOSS PER SHARE

	2011	2010
Loss for the year after taxation	(2,369,925)	(2,710,669)
	Number of shares	
Weighted average number of ordinary shares	1,002,916,457	950,861,662
	(Rupees)	
Basic and diluted loss per share	(2.36)	(2.85)

32. CASH AND CASH EQUIVALENTS

	Note	2011	2010
		(Rupees in '000)	
Cash and balances with treasury banks	8	4,822,597	3,272,520
Balances with other banks	9	10,644,794	199,276
Overdrawn nostro accounts	17.2	(579,935)	(28,019)
		14,887,456	3,443,777

33. STAFF STRENGTH

	2011	2010
	Number of employees	
Permanent	1,067	1,147
Temporary / on contractual basis	59	51
Bank's own staff strength at the end of the year	1,126	1,198
Outsourced	411	528
Total staff strength	1,537	1,726

34. DEFINED CONTRIBUTION PLAN

The general description of the defined contribution plan is included in note 5.15.

35. DEFINED BENEFIT SCHEME

The Bank operates an approved unfunded gratuity scheme for all its permanent employees. Latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2011 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2011		2010
		(%)	
Discount rate	12.5		14
Expected rate of salary increase - short term	8		14
Expected rate of salary increase - long term	12.5		14

35.1 Movement in liability

	2011	2010
	(Rupees in '000)	
Opening balance	110,710	91,018
Charge for the year	12,371	33,880
Payments made during the year	(24,390)	(14,188)
Closing balance	98,691	110,710

35.2 Charge for the year

	2011	2010
Current service cost	37,423	24,270
Interest cost	13,792	12,743
Actuarial loss recognised	(38,844)	(3,133)
	12,371	33,880

35.3 Movement in present value of defined benefit obligations

	2011	2010
Opening balance	110,710	91,018
Current service cost	37,423	24,270
Interest cost	13,792	12,743
Benefits paid	(24,390)	(14,188)
Actuarial loss recognised	(38,844)	(3,133)
Closing balance	98,691	110,710

35.4 Historical information

	2011	2010	2009	2008	2007
	(Rupees in '000)				
Present value of obligations	98,691	110,710	91,018	74,706	40,115

35.5 Based on actuarial advice, the management estimates that the charge to defined benefit scheme for the year ending 31 December 2012 would be Rs. 38.969 million.

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Managerial remuneration	12,118	13,067	11,600	3,867	273,334	274,634
Contribution to defined contribution plan	1,062	1,121	966	322	17,993	18,912
Contribution to defined benefit scheme	-	1,508	623	391	18,305	25,381
Rent and house maintenance	3,635	3,920	3,480	1,160	82,000	82,391
Utilities	1,212	1,307	1,160	387	27,333	27,463
Medical	1,212	1,307	1,160	387	27,333	27,466
Others	1,228	1,251	780	260	67,907	45,548
	20,467*	23,481	19,769	6,774	514,205	501,795
Number of persons	1	1	1	1	327	306

* Include remuneration of Ex-Chief Executives of the Bank.

36.1 The Bank provides free use of Bank maintained cars to the Chief Executive and certain executives in accordance with the terms of their employment.

36.2 Fee paid to non-executive directors for attending the Board meetings amounts to Rs. 6.225 million (2010: Rs. 7.350 million).

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2011		2010	
	Book value	Fair value	Book value	Fair value
On-balance sheet financial instruments	(Rupees in '000)			
Assets				
Cash and balances with treasury banks	4,822,597	4,822,597	3,272,520	3,272,520
Balances with other banks	10,644,794	10,644,794	199,276	199,276
Lendings to financial institutions	622,683	622,683	40,000	40,000
Investments	16,883,748	16,843,901	13,052,504	12,960,971
Advances	28,437,166	28,437,166	29,527,698	29,527,698
Other assets	2,492,870	2,492,870	1,148,621	1,148,621
	63,903,858	63,864,011	47,240,619	47,149,086
Liabilities				
Bills payable	891,579	891,579	541,041	541,041
Borrowings	4,427,271	4,427,271	6,138,207	6,138,207
Deposits and other accounts	61,262,896	61,262,896	46,274,187	46,274,187
Other liabilities	1,389,025	1,389,025	1,054,724	1,054,724
	67,970,771	67,970,771	54,008,159	54,008,159
Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	11,445,273	11,416,569	3,547,188	3,524,878
Forward sale of foreign exchange contracts	6,541,997	6,576,421	2,429,361	2,388,023

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value of financial instruments is based on:

Federal Government Securities	PKRV rates
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break-up value as per latest available audited financial statements.

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policies as stated in note 5.6 and 6.

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities of the Bank is as follows:

2011	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
	(Rupees in '000)				
Total income	5,009,208	6,402	146,484	27,808	5,189,902
Total expenses	(7,816,351)	(150,346)	(154,565)	(69,373)	(8,190,635)
Loss before taxation	(2,807,143)	(143,944)	(8,081)	(41,565)	(3,000,733)
Segment assets (gross)	50,154,654	1,855,706	26,377,499	213,555	78,601,414
Segment non-performing loans	11,950,291	186,958	-	-	12,137,249
Segment provision required	5,245,954	627,818	1,464,872	-	7,338,644
Segment liabilities	66,593,050	542,224	836,999	8	67,972,281
	%				
Segment return on assets	(6)	(8)	-	(19)	
Segment cost of funds	10	13	11	13	

2010	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
	(Rupees in '000)				
Total income	4,068,627	370,197	1,098,628	102,721	5,640,173
Total expenses	(7,105,910)	(746,972)	(1,188,926)	(53,740)	(9,095,548)
Profit / (Loss) before taxation	(3,037,283)	(376,775)	(90,298)	48,981	(3,455,375)
Segment assets (gross)	50,211,251	3,570,929	9,260,253	216,287	63,258,720
Segment non-performing loans	8,322,347	1,294,252	-	-	9,616,599
Segment provision required	5,173,604	456,932	1,198,701	-	6,829,237
Segment liabilities	51,315,898	304,863	2,626,265	-	54,247,026
	%				
Segment return on assets	(6)	(11)	(1)	23	
Segment cost of funds	9	13	15	13	

39. TRUST ACTIVITIES

The Bank is not engaged in any trust activities.

40. RELATED PARTY TRANSACTIONS

The management has determined related party relationships in accordance with approved accounting standards which include holding company, subsidiaries, associates, retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Transaction with related parties, other than those disclosed elsewhere in financial statements, are summarized as follows:

	As at 31 December 2011					
	Subsidiaries	Holding company / Associates	Directors	Key management personnel	Other related parties	Total
	-----(Rupees in '000)-----					
Deposits						
As at 01 January 2011	138,423	220,673	2,968	35,906	216,992	614,962
Received during the year	58,565,566	10,202,831	58,201	286,546	541,552	69,654,696
Withdrawals during the year	(58,643,326)	(10,214,740)	(56,683)	(304,172)	(578,991)	(69,797,912)
As at 31 December 2011	60,663	208,764	4,486	18,280	179,553	471,746
Loan and advances						
As at 01 January 2011	102,868	129,645	15,580	49,496	388	297,977
Disbursements during the year	7,188,690	242,783	10,000	27,541	-	7,469,014
Repayments during the year	(7,062,614)	(173,745)	(4,876)	(21,678)	(388)	(7,263,301)
As at 31 December 2011	228,944	198,683	20,704	55,359	-	503,690
Other assets	26,039	10,820	-	-	-	36,859
Other liabilities	63	95	2	102	7	269
Contingencies and commitments	-	350,010	-	-	2,249	352,259

	As at 31 December 2010					
Deposits						
As at 01 January 2010	329,891	177,498	2,567	20,987	215,216	746,159
Adjustment during the year	-	9,783	-	-	(51,170)	(41,387)
Received during the year	77,149,980	2,888,409	185,605	333,351	346,252	80,903,597
Withdrawals during the year	(77,341,448)	(2,855,017)	(185,204)	(318,432)	(293,306)	(80,993,407)
As at 31 December 2010	138,423	220,673	2,968	35,906	216,992	614,962
Loan and advances						
As at 01 January 2010	99,988	90,000	19,123	62,147	251,555	522,813
Adjustment during the year	-	-	-	-	(250,000)	(250,000)
Disbursements during the year	254,254	285,681	4,959	31,025	-	575,919
Repayments during the year	(251,374)	(246,036)	(8,502)	(43,676)	(1,167)	(550,755)
As at 31 December 2010	102,868	129,645	15,580	49,496	388	297,977
Other assets	2,822	4,319	-	-	22	7,163
Other liabilities	52	3,045	21	252	-	3,370
Contingencies and commitments	-	404,001	-	-	2,141	406,142

	For the year ended 31 December 2011					
Mark-up earned	20,021	26,371	1,077	1,838	12	49,319
Mark-up expensed	6,996	76,149	12	1,529	20,397	105,083
Group executive services	-	6,742	-	-	-	6,742
Remuneration for services	11,939	462	22,286	89,752	-	124,439
Contribution to staff provident fund	-	-	-	-	26,500	26,500
Other income	10,317	2,817	-	-	-	13,134
Others	894	-	-	-	-	894

	For the year ended 31 December 2010					
Mark-up earned	16,590	18,970	873	2,693	150	39,276
Mark-up expensed	21,195	18,758	45	1,507	21,474	62,979
Group executive services	-	52,473	-	-	-	52,473
Remuneration for services	21,978	-	25,981	82,414	-	130,373
Contribution to staff provident fund	-	-	-	-	35,774	35,774
Other income	4,631	20,120	-	-	5	24,756
Investments during the year	-	58,000	-	-	-	58,000
Others	4,235	-	-	-	-	4,235

41. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

41.1 Capital management

The primary objective of the Bank's capital management is to ensure that the Bank complies with all regulatory capital requirements and at the same time maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Basel II implementation is a vital initiative towards strengthening Bank's risk management. The Bank in line with the SBP guidelines has adopted the standardized approach for credit, market risks and basic indicator approach for operational risk.

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers.

- Maintain strong ratings and to protect the Bank against unexpected events.

- Availability of adequate capital at a reasonable cost so as to enable the Bank to expand and achieve low overall cost of capital with appropriate mix of capital elements.

The Bank has developed a capital management plan as part of its Internal Capital Adequacy Assessment Process (ICAAP). This plan documents the Bank's risk management structures, financial projections and its capital management plan for the next 5 years. The plan has been approved by the management and Board and submitted to the SBP on bi-annual basis and is subject to periodic review.

41.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the Minimum Capital Requirement (MCR) for Banks up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2011 is Rs. 8 billion. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank.

The paid up capital of the Bank (net of losses) as of 31 December 2011 amounted to Rs. 2,724.140 million while CAR stands at 0.08% as of that date. The management's actions and plans for meeting the required capital requirements are disclosed in note 1.2 to the financial statements.

41.3 Capital structure

Tier I capital includes paid up capital, share premium, reserves and un-appropriated profit / accumulated losses, etc. after deductions for investment in subsidiaries (upto 50 percent) engaged in banking and financial activities, goodwill, intangibles and relaxation in provisions, if any.

Tier II capital, includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets). Revaluation reserves (up to a maximum of 45 percent of revaluation reserves gross of any deferred tax liability) after deduction of remaining 50 percent of investment in subsidiaries as mentioned above.

Tier III capital, consists of short term subordinated debt solely for the purpose of meeting a proportion of the capital requirement for market risks. The Bank currently does not have any Tier III capital.

	Note	2011	2010
		(Rupees in '000)	
Tier I capital			
Share capital		19,508,617	9,508,617
Discount / premium on issue of right shares		(6,976,276)	23,724
Accumulated losses		(9,808,201)	(7,853,152)
Reserves		384	151,287
		2,724,524	1,830,476
Book value of:			
- goodwill		(366,656)	(431,391)
- intangibles		(206,643)	(231,603)
Other deductions:			
- 50% investments in subsidiaries and associates	41.5	(1,232,942)	(1,293,362)
- Relaxation in provisions against non-performing loans and advances		-	(495,102)
		918,283	(620,982)
Tier II capital			
General provisions subject to 1.25% of total risk weighted assets		13,066	20,234
Revaluation reserve (upto 45%)		344,129	242,922
Other deductions:			
- 50% investments in subsidiaries and associates	41.5	(1,232,942)	(1,293,362)
		(875,747)	(1,030,206)
Eligible Tier III capital		-	-
Total regulatory capital		42,536	(1,651,188)

41.4 The capital to risk weighted assets calculated in accordance with SBP's guidelines on capital adequacy is as follows:

	Capital requirements		Risk weighted assets	
	2011	2010	2011	2010
	(Rupees in '000)			
Credit risk				
Portfolios subject to standardized approach				
Claim on				
Corporate portfolio	1,945,949	2,179,337	19,459,488	21,793,370
Retail portfolio	72,078	126,920	720,779	1,269,198
Banks	223,550	19,276	2,235,501	192,762
Residential property	41,696	43,981	416,964	439,813
Past due loans	865,430	478,588	8,654,304	4,785,880
Investment in fixed assets	313,539	314,753	3,135,392	3,147,530
Other assets	881,858	750,370	8,818,577	7,503,704
	4,344,100	3,913,225	43,441,005	39,132,257
Off balance sheet				
Non market related	749,714	487,639	7,497,144	4,876,387
Market related	21,721	9,466	217,205	94,661
	771,435	497,105	7,714,349	4,971,048
	5,115,535	4,410,330	51,155,354	44,103,305
Market risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	92,705	29,587	1,158,818	369,839
Equity position risk	8,315	7,535	103,932	94,190
Foreign exchange risk	2,940	27,893	36,747	348,667
	103,960	65,015	1,299,497	812,696
Operational risk				
Capital requirement for operational risks	35,756	140,252	446,950	1,402,521
Total	5,255,251	4,615,597	52,901,801	46,318,522

Capital Adequacy Ratio		
Total eligible regulatory capital held	42,536	(1,651,188)
Total risk weighted assets	52,901,801	46,318,522
CAR	0.08%	-3.56%

41.5 The CAR calculation does not include the impact of deduction of investments in open ended mutual funds amounting to Rs. 916.254 million (2010: Rs 927.415 million) based on the clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated 27 April 2009.

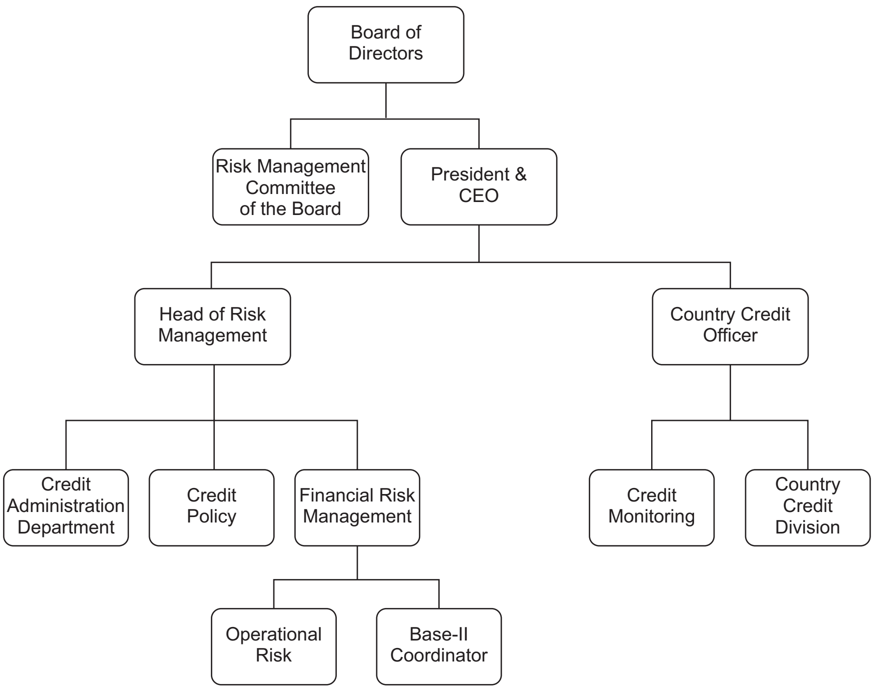
42. RISK MANAGEMENT

The Bank's business activities expose it to a wide variety of risks, which are inherent in virtually all aspects of its operations. The management's goal in managing these risks is to protect the Bank from an unacceptable level of earnings volatility while supporting and enabling business opportunities. This is done by ensuring that the risks arising from business activities and transactions provide an appropriate balance of return for the risk assumed and remain within the Bank's risk appetite. The Bank has implemented a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and guidelines, which involve the Bank's risk management professionals and business segments. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the Bank's risk appetite. The primary risks associated with the Bank are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Representations of risk are for a given period and the Bank's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the Bank including business process re-engineering and inventorying the risks and controls within the Bank's existing business and process units. All of these initiatives will have a direct impact on the risk management function within the Bank.

The Bank strives to continually enhance its risk management capabilities in view of changing business needs and market conditions. In this regard the risk management structure at the Bank has been reorganized with the formation of a Country Credits Division (CCD) responsible for evaluation and approval of all credit proposals. The Division is headed by a Country Credit Officer (CCO) who reports directly to the President. The Credit Monitoring function has also been placed under the CCO. credit administration, financial risk, credit policy and procedures, operational risk and Basel II functions continue to report to the Chief Risk Officer.



42.1.1 Credit risk

Credit risk is the risk of financial loss if a customer or counter party fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees, and from the Bank's holdings of debt securities. Among the risks the Bank is faced with credit risk accounts for the largest regulatory capital requirement.

The aims of credit risk management are principally as follows:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Bank's overall objectives.
- Working with business groups in keeping aggregate credit risk well within the Bank's risk taking capacity.
- Developing and maintaining credit approval authority structure.
- Approving major credits.
- Recommending approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Bank.
- Organising portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The credit portfolio, which includes Corporate and Commercial Banking (Middle Market and SME) loans are generally collateralised by cash equivalents, fixed and current assets including stocks, property plant and machinery and mortgages. Loans to individuals are typically secured by cash equivalents, residential mortgage and selected listed shares.

Credit risk organization and structure

Taking credit risk is central to the business therefore it has been ensured that business managers, in conjunction with risk managers, are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

Credit approval authorities and standardised procedures

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers linked to the internal risk rating of an obligor.

Credit approval process, credit policy and procedure manual, credit bulletins and the enterprise wide risk policy have been approved by the Risk Management Committee (RMC) of the Board and includes:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action.

Quarterly reporting is made to the RMC of the Board of Directors on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

Credit risk portfolio management

The Bank seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved credit policy. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers and industry segments.

The credit portfolio is monitored through the Credit Risk Management Committee (CRMC) which includes senior business and risk managers. The major functions of this committee include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and ensure that the overall credit risk exposure of the Bank does not breach the pre-defined limits.
- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in light of the approved limits.

Risk rating

The Board has approved the Internal Credit Risk Rating Policy for the Corporate and Commercial Banking segments. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor.

The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information/assessment. It assigns grades from “1” to “7” under the performing category. ORRs ranging between “8” to “10” are assigned to classified obligors based upon an internal classification and remedial management process. The ORR model forms an integral part of the approval process that materially helps in decision making.

The risk rating of an obligor is initially performed by a Relationship Manager and reviewed by a responsible senior / Credit Officer who is normally the Regional Head. Risk rating is also reviewed by the CCO.

The credit limits delegations under the credit policy are based on a grid that is driven by the assigned risk rating.

A Risk Rating System for the consumer portfolio is also being developed.

Mitigants

The following initiatives are used to mitigate credit risk:

(a) Credit principles and policy

To ensure consistency and standardisation across the Corporate and Commercial Banking Group, standard credit procedures and policies are implemented through the approved Credit Policy Manual. This ensures clear definition of responsibilities of the business, risks, credit administration and remedial departments and provides a basis for a disciplined environment.

(b) Counter party limits and credit scoring

"The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

(c) Concentration risk

The credit policy provides limits for industry sector concentrations and through the regular meetings of CRMC on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral

One of the mitigants is the collateral held against the credit exposures. The credit policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the Bank and giving the Bank a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances. There is no legally enforceable netting agreement with the borrowers.

(e) Risk Acceptance Criteria (RAC)

RACs have been approved by the management and put in place as basic guiding rules for Corporate and Commercial Banking segments.

Special Assets Management (SAM)

The credit policy defines the classified credit process to be followed in order to establish a consistent approach to problem recognition, problem labelling, remedial action, loan loss provisioning and the initiation of credit write-offs. It defines clear responsibilities pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

The SAM portfolio is regularly reviewed by the CRMC and the RMC of the Board and all working plans, recoveries, waivers and write-offs are approved.

Credit concentration risk

The Bank manages limits and controls concentration of credit risk as identified, in particular to individual counter parties and groups, and to industries, where appropriate. Concentration of credit risk exists if clients are engaged in similar activities or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank sets limits on its credit exposure to counter party groups, by industry, product, and counter party, in line with SBP directions / guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentration or areas of higher risk, or to control the rate of portfolio growth. As of 31 December 2011 the Bank has exceeded certain exposure limits due to shortfall in capital. The management believes that such limits will be regularised upon recapitalization of the Bank as per plan referred to in note 1.2 to the financial statements.

Risk Asset Review

The Risk Asset Review (RAR) Unit continuously monitors portfolios and process quality. It reports regularly to the RMC of the Board and senior management on all portfolios, maintains and analyses the Institution's records in adversely classified credits, and conducts periodic inspections. RAR reviews on-site and reports on every portfolio and credit process at least every twelve months.

42.1.2 Credit risk – General Disclosure Basel II Specific

The Bank has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on corporate portfolio 44.80%, claims on retail portfolio 1.66%, claims on banks 5.15%, claims on residential property 0.96%, past due loans 19.92%, investments in fixed assets 7.22% and all other assets 20.29%.

42.1.3 Credit Risk: Standardised Approach

The Bank uses unsolicited ratings from External Credit Assessment Institutions as approved by the SBP including JCR-VIS, PACRA and other foreign agencies wherever applicable.

Exposure	JCR-VIS	PACRA	Fitch & Moody's	Standard & Poor's
- Corporate	✓	✓	-	-
- Banks	✓	✓	✓	✓
- Sovereigns	-	-	✓	-
- SME's	-	-	-	-
- Securitizations	-	-	-	-

Credit exposure subject to Standardised Approach

	2011		
Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	(Rupees in '000)		
0%	5,386,235	-	5,386,235
20%	11,575,155	230,632	11,344,523
35%	1,191,327	-	1,191,327
50%	2,395,901	500,000	1,895,901
75%	1,263,597	303,517	960,080
100%	29,976,201	676,482	29,299,719
150%	6,494,997	-	6,494,997
	58,283,413	1,710,631	56,572,782

	2010		
Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	(Rupees in '000)		
0%	3,943,471	-	3,943,471
20%	491,160	-	491,160
35%	1,256,608	-	1,256,608
50%	3,810,782	500,000	3,310,782
75%	1,923,085	246,440	1,676,645
100%	33,478,525	1,399,037	32,079,488
150%	2,335,226	-	2,335,226
	47,238,857	2,145,477	45,093,380

42.1.4 Credit risk: Disclosure on Credit Risk Mitigation (CRM) for Standardarised Approach - BASEL II Specific

The Bank has adopted simple approach to CRM under Basel II. Main types of collateral taken by the Bank are:

- Mortgage of residential, commercial and industrial property
- Equities and shares held
- Cash, deposits under lien and government securities

42.1.5 Segmental information

42.1.5.1 Segments by class of business

	2011					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, Forestry, Hunting and Fishing	367,530	1.07	4,824,875	7.88	38,190	0.10
Automobile and transportation equipment	120,219	0.35	58,727	0.10	23,273	0.06
Cement	1,463,134	4.27	2,540	0.00	62,897	0.16
Chemical and Pharmaceuticals	1,747,243	5.09	1,673,565	2.73	1,407,432	3.54
Construction	2,040,184	5.95	714,483	1.17	2,510,936	6.31
Electronics and electrical appliances	1,250,943	3.65	43,231	0.07	298,319	0.75
Exports / Imports	1,263,169	3.68	161,372	0.26	94,269	0.24
Financial	1,632,397	4.76	380,747	0.62	22,789,885	57.30
Food and Beverages	1,619,068	4.72	330,257	0.54	-	-
Footwear and Leather garments	338,805	0.99	7,094	0.01	-	-
Individuals	5,094,174	14.85	19,806,371	32.33	-	-
Insurance	-	-	17,311	0.03	-	-
Manufacturing	-	-	876,968	1.43	-	-
Mining and Quarrying	-	-	85,602	0.14	-	-
Oil and gas	-	-	14,234,904	23.24	-	-
Power (electricity), Gas, Water, Sanitary	1,714,947	5.00	1,980,329	3.23	807,422	2.03
Production and transmission of energy	-	-	-	-	6,104,818	15.35
Public / Government	896,021	2.61	5,225,837	8.53	-	-
Services	945,840	2.76	4,235,141	6.91	847,439	2.13
Sugar	1,263,976	3.69	63,065	0.10	30,791	0.08
Textile	6,117,877	17.84	655,210	1.07	733,309	1.84
Transport, Storage and Communication	327,997	0.96	653,550	1.07	160,932	0.40
Wholesale and Retail Trade	1,671,953	4.88	2,770,118	4.52	22,519	0.06
Others	4,419,525	12.89	2,461,599	4.02	3,837,593	9.65
	34,295,002	100 .00	61,262,896	100.00	39,770,024	100.00

Segments by class of business

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, Forestry, Hunting and Fishing	465,872	1.34	1,810,131	3.91	-	-
Automobile and transportation equipment	120,235	0.35	948,345	2.05	-	-
Cement	1,522,646	4.37	-	-	458,752	2.18
Chemical and Pharmaceuticals	1,196,946	3.44	598,817	1.29	387,534	1.84
Construction	2,055,678	5.90	3,561,374	7.70	3,042,434	14.46
Electronics and electrical appliances	1,704,107	4.89	123,891	0.27	306,480	1.46
Exports / Imports	1,074,555	3.08	188,735	0.41	100,719	0.48
Financial	1,714,103	4.92	1,477,148	3.19	10,219,469	48.56
Food and Beverages	1,646,815	4.73	722,313	1.56	-	-
Footwear and Leather garments	353,301	1.01	78,138	0.17	-	-
Individuals	5,655,972	16.24	17,313,901	37.42	-	-
Insurance	-	-	18,687	0.04	-	-
Manufacturing	2,695,396	7.74	1,417,510	3.06	-	-
Mining and Quarrying	-	-	184,986	0.40	-	-
Power (electricity), Gas, Water, Sanitary	288,093	0.83	190,892	0.41	1,610,457	7.65
Production and transmission of energy	-	-	-	-	338,358	1.61
Public / Government	900,000	2.58	7,100,231	15.34	-	-
Services	1,158,884	3.33	4,809,808	10.39	1,004,115	4.77
Sugar	1,402,277	4.03	40,473	0.09	10	0.00
Textile	6,350,761	18.23	677,714	1.46	821,243	3.90
Transport, Storage and Communication	351,027	1.01	527,982	1.14	-	-
Wholesale and Retail Trade	1,819,687	5.22	3,470,326	7.51	-	-
Others	2,361,644	6.78	1,012,785	2.19	2,757,502	13.10
	34,837,999	100.00	46,274,187	100.00	21,047,073	100.00

42.1.6 Non-performing loans and advances and specific provision by class of business

	2011 Classified advances	2011 Specific provision held	2010 Classified advances	2010 Specific provision held
	(Rupees in '000)			
Automobile and Transportation equipment	108,239	103,586	108,239	104,191
Cement	908,188	402,292	904,885	455,999
Chemical and Pharmaceuticals	923	923	923	923
Construction	1,426,791	575,058	1,071,039	424,527
Electronics and electrical appliances	2,502	2,502	7,520	2,181
Exports / Imports	21,680	9,476	21,675	9,115
Financial	368,067	323,707	504,715	328,963
Food and Beverages	135,005	67,749	135,005	45,330
Footwear and Leather garments	2,475	2,475	2,475	2,475
Individuals	1,442,362	619,281	1,300,018	578,468
Power (electricity), Gas, Water, Sanitary	-	-	-	-
Services	68,365	25,870	49,826	26,253
Sugar	-	-	-	-
Textile	4,080,130	2,428,570	2,773,842	1,810,845
Transport, Storage and Communication	265,935	265,935	293,603	282,085
Wholesale / Retail Trade	227,483	182,814	985,611	391,626
Others	3,079,104	834,532	1,457,223	827,086
	12,137,249	5,844,770	9,616,599	5,290,067

42.1.7 Segments by sector

2011	Gross advances Rupees in '000	Gross advances %	Deposits Rupees in '000	Deposits %	Contingencies and commitments Rupees in '000	Contingencies and commitments %
Public / Government	896,021	2.61	5,225,837	8.53	-	-
Private	33,398,981	97.39	56,037,059	91.47	39,770,024	100.00
	34,295,002	100.00	61,262,896	100.00	39,770,024	100.00

2010	Gross advances Rupees in '000	Gross advances %	Deposits Rupees in '000	Deposits %	Contingencies and commitments Rupees in '000	Contingencies and commitments %
Public / Government	900,000	2.58	7,100,231	15.34	-	-
Private	33,937,999	97.42	39,173,956	84.66	21,047,073	100.00
	34,837,999	100.00	46,274,187	100.00	21,047,073	100.00

42.1.8 Non-performing loans and advances and specific provision by sector

	2011 Classified advances	2011 Specific provisions held	2010 Classified advances	2010 Specific provisions held
	(Rupees in '000)			
Public / Government	-	-	-	-
Private	12,137,249	5,844,770	9,616,599	5,290,067
	12,137,249	5,844,770	9,616,599	5,290,067

42.2 Market risk

Market risk is the risk of loss in market values of a given portfolio arising from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The Financial Risk Management (FRM) Department is responsible for developing the Bank's market risk policies and measurement techniques. The policies are approved by the Market Risk Policy Committee (MRPC) and the RMC of the Board.

Market risk measures and controls are applied at the portfolio level and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

FRM unit performs all market risk management activities within the Bank. FRM unit is responsible for developing and reviewing market risk policies, strategies and processes. It has to ensure monitoring and implementation of market risk and other policies. Any deviations are escalated to the MRPC which comprises of senior management.

The scope of market risk management is as follows:

- To keep the market risk exposure within the Bank's risk appetite as assigned by the Board of Directors.
- All the market risk policies are approved by the RMC of the Board and implementation is done by the senior management through MRPC, Treasury and FRM unit.
- Various limits have been assigned on a portfolio basis.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II.

Market risk comprises of foreign exchange risk, equity price risk and interest rate / yield risk.

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss resulting from changes in exchange rates. Foreign exchange risk is controlled and monitored through the limits approved by MRPC within the overall limits advised by the SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank and therefore the risk generated through foreign exchange activities is insignificant.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------------------- (Rupees in '000) -----------------------			
Pakistan rupee	58,675,708	50,604,278	(4,903,276)	3,168,154
United States dollar	1,972,922	1,258,836	(786,636)	(72,550)
Great Britain pound	120,516	231,994	113,333	1,855
Canadian dollar	3,798	3,675	-	123
Japanese yen	7,095,155	8,655,274	1,599,022	38,903
Euro	3,388,978	7,217,348	3,977,557	149,187
Other currencies	5,693	876	-	4,817
	71,262,770	67,972,281	-	3,290,489

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------------------- (Rupees in '000) -----------------------			
Pakistan rupee	55,580,734	52,895,180	(1,117,827)	1,567,727
United States dollar	580,859	910,986	880,417	550,290
Great Britain pound	70,754	195,847	126,542	1,449
Canadian dollar	-	132	-	(132)
Japanese yen	3,438	-	(3,677)	(239)
Euro	191,890	244,881	114,545	61,554
Other currencies	1,808	-	-	1,808
	56,429,483	54,247,026	-	2,182,457

(ii) Equity price risk

Equity price risk arises due to change in prices of stocks or levels of equity indices.

The Bank's equity and mutual fund exposure is managed with the objective to be in the SBP limits for overall investment and per script exposure. In addition, there are internal limits for trading position as well as stop loss limits, dealer limits and future contracts limits.

(iii) Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates.

The Assets and Liability Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatch in maturity of financial assets and financial liabilities.

The Bank's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and instrument limits. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

Mismatch of interest rate sensitive assets and liabilities

The Bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

2011

	Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
		-----Rupees in '000-----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	4,822,597	1,599,235	-	-	-	-	-	-	-	-	3,223,362
Balances with other banks	0.01%	10,644,794	3,431,568	-	-	-	-	-	-	-	-	7,213,226
Lending to financial institutions	6.53%	622,683	622,683	-	-	-	-	-	-	-	-	-
Investments	8.44%	16,883,748	27,143	898,115	1,265,747	7,741,298	647,819	223,032	466,477	502,405	-	5,111,712
Advances	13.61%	28,437,166	17,089,816	2,874,954	2,201,693	37,340	46,772	129,258	72,742	170,383	357,561	5,456,647
Other assets		941,028	-	-	-	-	-	-	-	-	-	941,028
		62,352,016	22,770,445	3,773,069	3,467,440	7,778,638	694,591	352,290	539,219	672,788	357,561	21,945,975
Liabilities												
Bills payable		891,579	-	-	-	-	-	-	-	-	-	891,579
Borrowings	12.28%	4,427,271	623,124	2,285,274	1,377,312	42,272	73,623	25,666	-	-	-	-
Deposits and other accounts	9.08%	61,262,896	4,579,734	16,215,623	12,174,307	6,510,200	10,200	2,000	980	-	-	21,769,852
Liabilities against assets subject to finance lease	2.06%	1,510	1,510	-	-	-	-	-	-	-	-	-
Other liabilities		1,046,875	-	-	-	-	-	-	-	-	-	1,046,875
		67,630,131	5,204,368	18,500,897	13,551,619	6,552,472	83,823	27,666	980	-	-	23,708,306
On-balance sheet gap		(5,278,115)	17,566,077	(14,727,828)	(10,084,179)	1,226,166	610,768	324,624	538,239	672,788	357,561	(1,762,331)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		11,445,273	3,029,750	4,036,280	4,379,243	-	-	-	-	-	-	-
Forward sale of foreign exchange		(6,541,997)	(2,917,440)	(2,021,000)	(1,603,557)	-	-	-	-	-	-	-
Off-balance sheet gap		4,903,276	112,310	2,015,280	2,775,686	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			17,678,387	(12,712,548)	(7,308,493)	1,226,166	610,768	324,624	538,239	672,788	357,561	(1,762,331)
Cumulative Yield / Interest Risk Sensitivity Gap			17,678,387	4,965,839	(2,342,654)	(1,116,488)	(505,720)	(181,096)	357,143	1,029,931	1,387,492	(374,839)

2010

	Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
		-----Rupees in '000-----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	3,272,520	256,967	-	-	-	-	-	-	-	-	3,015,553
Balances with other banks	0.33%	199,276	38,211	-	-	-	-	-	-	-	-	161,065
Lending to financial institutions	12.77%	40,000	40,000	-	-	-	-	-	-	-	-	-
Investments	11.14%	13,052,504	832,662	3,072,460	1,438,532	195,645	774,217	829,790	683,135	442,659	-	4,783,404
Advances	13.87%	29,527,698	17,301,712	3,641,912	2,824,543	22,875	354,248	50,107	432,055	162,636	431,312	4,306,298
Other assets	-	1,159,081	-	-	-	-	-	-	-	-	-	1,159,081
		47,251,079	18,469,552	6,714,372	4,263,075	218,520	1,128,465	879,897	1,115,190	605,295	431,312	13,425,401
Liabilities												
Bills payable	-	541,041	-	-	-	-	-	-	-	-	-	541,041
Borrowings	9.64%	6,138,207	1,698,318	3,061,574	876,523	101,444	162,406	167,110	70,832	-	-	-
Deposits and other accounts	9.59%	46,274,187	21,043,398	7,040,009	3,825,595	6,758,496	381,945	200	680	-	-	7,223,864
Liabilities against assets subject to finance lease	12.05%	2,170	-	508	152	-	-	1,510	-	-	-	-
Other liabilities		1,053,213	-	-	-	-	-	-	-	-	-	1,053,213
		54,008,818	22,741,716	10,102,091	4,702,270	6,859,940	544,351	168,820	71,512	-	-	8,818,118
On-balance sheet gap		(6,757,739)	(4,272,164)	(3,387,719)	(439,195)	(6,641,420)	584,114	711,077	1,043,678	605,295	431,312	4,607,283
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		3,547,188	1,715,172	1,100,258	641,458	90,300	-	-	-	-	-	-
Forward sale of foreign exchange		(2,429,361)	(1,835,114)	(189,182)	(405,065)	-	-	-	-	-	-	-
Off-balance sheet gap		1,117,827	(119,942)	911,076	236,393	90,300	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(4,392,106)	(2,476,643)	(202,802)	(6,551,120)	584,114	711,077	1,043,678	605,295	431,312	4,607,283
Cumulative Yield / Interest Risk Sensitivity Gap			(4,392,106)	(6,868,749)	(7,071,551)	(13,622,671)	(13,038,557)	(12,327,480)	(11,283,802)	(10,678,507)	(10,247,195)	(5,639,912)

42.3 Liquidity risk

42.3.1 Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function. The Bank follows a comprehensive liquidity risk management policy duly reviewed and approved by the RMC of the Board.

The Bank's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchise. A centralised approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required. The framework entails careful monitoring and control of the daily liquidity position. A contingency funding plan is in place to ensure a systematic response in a crisis situation.

The following tools are being used in order to monitor the liquidity risk:

- Liquidity Gap Reports
- Stress Scenarios
- Various Liquidity Ratios
- Significant Funding Concentrations

42.3.2 Maturities of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and also takes into account the effective maturities as indicated by the Bank's deposit retention history. Current and saving deposits are repayable on demand, however management has determined the maturity buckets, based on its judgment and experience. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	4,822,597	4,822,597	-	-	-	-	-	-	-	-
Balances with other banks	10,644,794	10,644,794	-	-	-	-	-	-	-	-
Lending to financial institutions	622,683	622,683	-	-	-	-	-	-	-	-
Investments	16,883,748	413,310	898,117	1,225,785	7,837,420	566,684	223,033	1,322,598	502,405	3,894,396
Advances	28,437,166	8,414,516	5,352,275	3,843,198	2,858,307	5,910,816	373,853	928,398	286,803	469,000
Operating fixed assets	3,342,032	24,252	48,505	72,758	145,516	291,031	291,031	498,100	892,479	1,078,360
Deferred tax assets	4,016,880	-	-	-	803,376	803,376	803,376	1,606,752	-	-
Other assets	2,492,870	514,491	645,069	26,575	477,866	392,427	392,427	-	-	44,015
	71,262,770	25,456,643	6,943,966	5,168,316	12,122,485	7,964,334	2,083,720	4,355,848	1,681,687	5,485,771
Liabilities										
Bills payable	891,579	148,596	297,193	445,790	-	-	-	-	-	-
Borrowings	4,427,271	623,124	2,285,274	1,377,312	42,272	73,623	25,666	-	-	-
Deposits and other accounts	61,262,896	6,248,757	10,595,852	5,591,359	11,798,412	3,690,870	5,683,902	9,091,237	8,562,507	-
Liabilities against assets subject to finance lease	1,510	1,510	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,389,025	837,085	285,073	5,226	38,381	48,832	76,763	97,665	-	-
	67,972,281	7,859,072	13,463,392	7,419,687	11,879,065	3,813,325	5,786,331	9,188,902	8,562,507	-
Net assets	3,290,489	17,597,571	(6,519,426)	(2,251,371)	243,420	4,151,009	(3,702,611)	(4,833,054)	(6,880,820)	5,485,771
Share capital	19,508,617									
Reserves	384									
Accumulated losses	(9,808,201)									
(Discount)/Premium on issue of right shares	(6,976,276)									
	2,724,524									
Surplus on revaluation of assets - net	565,965									
	3,290,489									

	2010									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	-Rupees in '000-									
Assets										
Cash and balances with treasury banks	3,272,520	3,272,520	-	-	-	-	-	-	-	-
Balances with other banks	199,276	199,276	-	-	-	-	-	-	-	-
Lending to financial institutions	40,000	40,000	-	-	-	-	-	-	-	-
Investments	13,052,504	891,802	2,864,262	2,075,929	933,780	835,369	861,421	1,039,733	650,860	2,899,348
Advances	29,527,698	6,415,201	8,224,688	4,351,956	4,376,719	2,045,339	851,466	1,648,525	1,021,335	592,469
Operating fixed assets	3,379,130	24,586	49,171	73,757	147,514	295,027	295,027	505,191	907,568	1,081,289
Deferred tax assets	3,966,880	-	-	-	-	812,326	541,191	1,982,816	630,547	-
Other assets	2,991,475	1,272,936	34,816	52,226	236,396	143,797	143,797	-	1,061,666	45,841
	56,429,483	12,116,321	11,172,937	6,553,868	5,694,409	4,131,858	2,692,902	5,176,265	4,271,976	4,618,947
Liabilities										
Bills payable	541,041	541,041	-	-	-	-	-	-	-	-
Borrowings	6,138,207	1,698,318	3,061,574	876,523	101,444	162,406	167,110	70,832	-	-
Deposits and other accounts	46,274,187	7,078,335	8,946,540	5,128,682	9,876,019	3,093,267	3,319,869	5,311,722	3,519,753	-
Liabilities against assets subject to finance lease	2,170	-	508	152	-	-	1,510	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-		
Other liabilities	1,291,421	847,177	121,655	5,859	46,930	58,647	93,859	117,294	-	-
	54,247,026	10,164,871	12,130,277	6,011,216	10,024,393	3,314,320	3,582,348	5,499,848	3,519,753	-
Net assets	2,182,457	1,951,450	(957,340)	542,652	(4,329,984)	817,538	(889,446)	(323,583)	752,223	4,618,947
Share capital	9,508,617									
Reserves	151,287									
Accumulated losses	(7,853,152)									
Share premium	23,724									
	1,830,476									
Surplus on revaluation of assets - net	351,981									
	2,182,457									

42.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Bank has developed a comprehensive Operational Risk Policy with the assistance of an independent consultant that governs the setting up of an Operational Risk Management Framework at the Bank. The framework addresses all significant areas of Operational Risk Management including carrying out a Risk and Controls Self Assessment exercise (RCSA), identification and monitoring of Key Risk Indicators (KRIs), Operational Loss Data Management and Capital Calculation etc.

Internal controls are an essential features of risk reduction in operational risk management. The Bank has taken following initiatives for developing a framework of internal controls:

- The Bank is in the process of adopting the internationally accepted COSO Internal Control Framework and has devised a well-defined and comprehensive Internal Control Programme in line with SBP guidelines.
- Internal control policies and manuals have been approved by the Board of Directors.
- The Bank with the help of an independent consultant has developed IT Policies and Standard Framework that is aligned with the internationally recognized COBIT standards.

43. PRIOR YEAR ADJUSTMENT

During the year 2008, KASB Capital Limited (KCL) amalgamated with and into the Bank which resulted in acquisition of identifiable net assets of KCL of Rs. 6,028 million and recognition of goodwill amounting to Rs. 1,538 million by the Bank. In accordance with the requirements of IFRS-3 " Business Combinations", all acquired net assets were recognised at acquisition date fair values which included an equity investment in Evolvence Capital Limited (ECL) - an unlisted company incorporated in British Virgin Islands (note 11.7). The fair value of the said investment was determined on the basis of unaudited book value of net assets of ECL as at 31 December 2008. However, subsequently the Bank received audited financial statements of ECL for the year ended 31 March 2009 which revealed a significant difference in the net assets value that was used earlier for the purpose of recording the above investment in the financial statements for the year ended 31 December 2008.

Accordingly, in accordance with the requirements of IAS - 8 " Accounting Policies, Changes in Accounting Estimates And Errors", the Bank has adjusted the fair value of the above referred investment in these financial statements and consequently, the comparative figures in these financial statements have been restated. The effect of such restatement is summarized as follows:

	2010	2009
	(Rupees in '000)	
Increase in investments	840,441	840,441
Decrease in other assets		
- Goodwill	840,441	840,441
- Provision for impairment	(840,441)	(840,441)
	-	-
Decrease in deferred tax asset	559,267	559,267
Increase in net equity	281,174	281,174

44. GENERAL

44.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.

44.2 Figures have been rounded off to the nearest thousand rupees.

45. DATE OF AUTHORISATION

These financial statements were authorized for issue in the Board of Directors' meeting held on 03 April 2012.

President and Chief Executive | Director | Director | Director

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000 OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2011

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	Mr. Tariq Ahmed Sheikh House No. 76/2, 13th Street, Khayaban-e-Badar, DHA, Karachi	Mr. Tariq Ahmed Sheikh 10910-3000000-5	Abdul Sattar Sheikh	14.703	0.757	0.001	15.461	2.773	4.064	0.297	7.134
2	M/s. Rizwan Departmental Store 99-C, Agro Square, Shadman Market, Lahore	Mr. Irfan Haider 35202-2966590-3 Mr. Rizwan Haider 35202-2966592-5	Mr. Ghulam Hussain Mr. Ghulam Hussain	53.500	3.450	-	56.950	23.500	3.450	-	26.950
3	M/s. Wasi Security (SMC-Pvt.) Ltd. Room No. 208-210, 2nd Floor, Lahore Stock Exchange Building, Lahore	Mr. Wasiullah Khan 35202-2471535-1	Naeem Ullah Khan	19.000	1.563	-	20.563	10.000	1.563	-	11.563
4	M/s. Construction Technique 7-C, Commercial Area, Muhammad Ali Housing Society, Karachi	Mr. Waseem Fatima 42301-3258718-0	Syed Qamar Abbas Jaffery	1.350	-	-	1.350	1.350	-	-	1.350
				88.553	**5.770**	**0.001**	**94.324**	**37.623**	**9.077**	**0.297**	**46.997**

CONSOLIDATED FINANCIAL STATEMENTS

We are pleased to present the Directors report and the audited consolidated financial statements of KASB Bank Limited for the year 2011.

MACROECONOMIC PERFORMANCE

The country's economy has been facing various challenges despite stabilization attempts aiming at generating more growth, employment and improving the quality of life of the people. Managing inflation has been a key concern in the background of surging oil prices. This coupled with drying sources of foreign inflows other than the workers' remittances has led to higher domestic borrowings particularly from the scheduled banks. The country's current account deficit has significantly increased mainly due to the trade deficit. Severe gas and power shortage has affected the overall production of the country. The measures aiming at correction of fiscal deficit may result in faster recovery and growth at a greater pace. Steps towards right direction are progressing such as to broaden the country's tax base, reduction in Government spending through austerity measures, promote exports, incentivize home remittances and implement power sector reforms. The going is tough but the track record of the economy shows that it has the resilience and can perform in tough conditions.

Key financial indicators

Key financial figures with comparatives for last year are as follows:

Balance Sheet	Dec 31, 2011	Dec 31, 2010
	-------- Rupees in Million --------	
Paid-up Capital	19,509	9,509
Equity	3,527	2,978
Deposits	61,994	46,695
Advances - net	29,387	30,209
Investments - net	15,589	12,860
Profit and Loss Account		
Revenue	396	837
Non markup expenses	3,258	3,017
Operating (Loss)	(2,862)	(2,180)
Provisions	277	1,286
(Loss) before tax	(3,146)	(3,487)
(Loss) after tax	(2,524)	(2,727)
(Loss) per share - Rupees	(2.50)	(2.88)

Changes in Board Composition of the Bank

Election of Directors was held in April, 2011 and all the Directors on the earlier Board of the Bank were elected as Directors for a period of three years. Since then till December 31, 2011 only one casual vacancy occurred on resignation of Mr. Nasir Ali Shah Bukhari which was filled in by co-option of Mr. Suo Lang Duo Ji, the main Chinese Investor, with effect from August 29, 2011 with concurrence of State Bank of Pakistan.

Shareholders' Equity

In line with the Capital Enhancement Plan of the Bank, one billion Rights Shares of Rs 10 each were offered to the shareholders at a discount of 70% i.e. at Rs.3/- per share. The unsubscribed rights were subscribed by KASB Finance (Pvt.) Limited under their underwriting agreement. The paid up share capital after the rights subscription has increased from Rs.9,508,616,620 to Rs.19,508,616,620.

Auditors' report

Auditors in their report have emphasized on the issue of non-compliance with the prescribed requirement of capital as on December 31, 2011. The Board and management of your bank are of the view that upon completion of the capital injection plan the bank will be fully compliant with the statutory requirements.

Another reference made by the auditors in their report relates to the realization of the deferred tax asset in the future years. Management of your bank is confident that the forecast profits as per the financial projections approved by the Board of Directors would be sufficient enough to absorb the total amount of deferred tax asset.

Corporate Governance

The management and the Board have remained very conscious of good governance. Following statements are recorded to meet the requirements of the Code of Corporate Governance:

- The financial statements prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- Proper books of account have been maintained by the Bank ;
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as disclosed therein, and accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented and monitored on best possible efforts;
- There are no doubts upon the Bank's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- Key operating and financial data of last six years has been included in these financial statements;
- In view of the loss for the year, no dividend is proposed to be given for the year; and
- There is no outstanding statutory payment on account of taxes, duties, levies and charges, other than those disclosed in the financial statements.

Employee Benefits Scheme

The Group operates two Employee Benefit Schemes, one Un-Funded Gratuity Scheme and the other Funded Employees' Provident Fund.

Shareholding by Directors

The following share acquisitions were made by the Directors during the year 2011:

- Syed Tariq Hussain Gilani acquired 500 shares as beneficial owner.
- Mr. Suo Lang Duo Ji acquired 500 shares as beneficial owner.
- 25,000 shares were gifted to Mr. Irshadali Shabanali Kassim by his father.

No other transaction in Bank's shares was carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children during the year 2011.

Board of Directors Meetings

Seven (7) Board meetings of KASB Bank were held during the financial year 2011. Information about the attendance is as under:

Name of Director	No. of meetings attended
Mr. Nasir Ali Shah Bukhari	5*
Mr. Mohammad Aftab Manzoor (Chief Executive)	1**
Mr. Tariq M. Rangoonwala	6
Mr. Muneer Kamal	7
Mr. Irshad Ali Shaban Ali Kassim	6
Mr. Waseem Haqqie	7
Mr. Leon Seynave	6
Mr. Syed Tariq Hussain Gilani	5***
Mr. Suo Lang Duo Ji	-****
Mr. Aamer H. Zaidi (Chief Executive)	2*****

**Relinquished Directorship with effect from August 29, 2011.*
***Relinquished Chief Executive Office with effect from April 01, 2011.*
**** Became Director on January 21, 2011.*
***** Became Director on August 29, 2011.*
******Became Chief Executive with effect from October 25, 2011.*
Leave of absence was duly granted to all members who were not present in the respective meetings.

Credit Rating

The re-assessment of the credit rating of the Bank is currently in progress. PACRA has last assigned long term rating of BBB and short term rating of A-3.

Auditors

The present auditors of the Bank M/s. Ernst & Young Ford Rhodes Sidat Hyder, (EY) Chartered Accountants retire and, being eligible, have offered themselves for re-appointment in the forthcoming Annual General Meeting. The Audit Committee of the Bank has recommended the re-appointment of EY for the next term.

Acknowledgment

We would like to thank our valued customers for their continued patronage and support, the State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory authorities for their guidance, our staff for their commitment, hard work and dedication, and our shareholders for the trust and confidence reposed in us.

For and on behalf of the Board of Directors

Leon Seynave
Chairman

Karachi
03 April 2012

ERNST & YOUNG

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We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of KASB Bank Limited (the Holding Company) and its subsidiaries (together referred to as Group) as at 31 December 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof for the year then ended. These consolidated financial statements include the unaudited certified returns from the branches of the Holding Company, except for fourteen branches (including four sub-branches) which have been audited by us. We have also expressed separate audit opinions / review conclusion on the financial statements of the Holding Company and its subsidiaries except for KASB Invest (Private) Limited (the Company) which was subject to a limited scope review by another firm of chartered accountants, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for the Company, is based solely on the report of such other auditor.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

We draw attention to:

(i) note 1.3 to the consolidated financial statements, which fully explains the Holding Company's capital deficiency in terms of the regulatory requirements as prescribed by the State Bank of Pakistan and the management's future plans and actions in relation thereto. The said note also indicates the existence of material uncertainties with respect to the recapitalization of the Holding Company and consequently, its sustainability in future. Further, the Holding Company has sought an extension of time from the State Bank of Pakistan till 30 June 2012 to finalise its capital injection plan; and

(ii) note 14.1 to the consolidated financial statements, which states that deferred tax asset has been recognized in these consolidated financial statements on the basis of Group's financial projections for the future years. The preparation of financial projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.

Our opinion is not qualified in respect of the above matters.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid
Date: 03 April 2012
Karachi

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011	2010	2009
		(Rupees in '000)		
			Restated (Note 44)	Restated (Note 44)
ASSETS				
Cash and balances with treasury banks	8	4,822,751	3,272,624	2,851,783
Balances with other banks	9	10,930,425	360,306	235,121
Lendings to financial institutions	10	622,683	40,000	2,804,596
Investments	11	15,588,703	12,859,540	13,580,973
Advances	12	29,386,674	30,209,384	29,916,446
Operating fixed assets	13	4,366,514	4,541,778	4,027,676
Deferred tax assets	14	3,862,741	3,251,132	3,037,071
Other assets	15	3,610,267	4,306,772	4,545,921
		73,190,758	58,841,536	60,999,587
LIABILITIES				
Bills payable	16	891,579	541,041	386,066
Borrowings	17	4,607,205	6,636,645	8,696,140
Deposits and other accounts	18	61,993,604	46,694,675	43,807,061
Sub-ordinated loans	-	-	-	
Liabilities against assets subject to finance lease	19	1,510	2,170	6,105
Deferred tax liabilities	-	-	-	
Other liabilities	20	2,169,988	1,989,290	2,687,394
		69,663,886	55,863,821	55,582,766
NET ASSETS		3,526,872	2,977,715	5,416,821
REPRESENTED BY				
Share capital	21	19,508,617	9,508,617	9,508,617
Reserves		30,839	162,727	151,287
Accumulated losses		(10,125,988)	(7,731,052)	(5,296,811)
(Discount) / premium on issue of right shares		(6,976,276)	23,724	23,724
		2,437,192	1,964,016	4,386,817
Non-controlling interests		502,021	534,801	524,694
		2,939,213	2,498,817	4,911,511
Surplus on revaluation of assets - net of tax	22	587,659	478,898	505,310
		3,526,872	2,977,715	5,416,821
CONTINGENCIES AND COMMITMENTS	23			

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

President and Chief Executive | Director | Director | Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		(Rupees in '000)	
Mark-up / return / interest earned	25	4,711,888	5,158,566
Mark-up / return / interest expensed	26	(5,196,408)	(5,169,142)
Net mark-up / return / interest income		(484,520)	(10,576)
Provision against non-performing loans and advances	12.7	(582,764)	(1,180,012)
Reversal / (provision) for diminution in the value of investments	11.3	305,810	(105,742)
Bad debts written off directly	12.8.1	(7,987)	(21,505)
		(284,941)	(1,307,259)
Net mark-up / return / interest income after provisions		(769,461)	(1,317,835)
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		596,169	594,068
Dividend income		23,486	47,828
Income from dealing in foreign currencies		109,289	64,421
Gain on sale / redemption of securities	27	119,149	152,377
Unrealised (loss) / gain on revaluation of investments classified as held for trading		(19,964)	3,615
Other income	28	126,921	109,192
Total non mark-up / interest income		955,050	971,501
		185,589	(346,334)
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	(2,805,265)	(2,989,039)
Other provisions / write offs		(162,070)	177,255
Other charges	30	(290,612)	(205,121)
Total non mark-up / interest expenses		(3,257,947)	(3,016,905)
		(3,072,358)	(3,363,239)
Share of loss from associates	11.13	(73,868)	(123,945)
LOSS BEFORE TAXATION		(3,146,226)	(3,487,184)
Taxation - Current year	31	(9,228)	(9,058)
- Prior years		(4,568)	-
- Deferred		635,717	768,897
		621,921	759,839
LOSS AFTER TAXATION		(2,524,305)	(2,727,345)
Loss after taxation attributable to:			
Equity holders of the Holding Company		(2,509,621)	(2,741,315)
Non-controlling interests		(14,684)	13,970
		(2,524,305)	(2,727,345)
Basic and diluted loss per share (Rupees)	32	(2.50)	(2.88)

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

President and Chief Executive | Director | Director | Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	(Rupees in '000)	
Net loss for the year	(2,524,305)	(2,727,345)
Other comprehensive income	-	-
Total comprehensive loss for the year	(2,524,305)	(2,727,345)

Surplus on revaluation of fixed assets and available for sale investments is required to be shown separately below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan (SBP). Accordingly, these have not been included in the consolidated statement of comprehensive income.

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

President and Chief Executive | Director | Director | Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(3,146,226)	(3,487,500)
Less: dividend income		(23,486)	(47,828)
		(3,169,712)	(3,535,328)
Adjustments:			
Depreciation		272,593	289,505
Amortisation		104,982	128,613
Provision against non-performing loans and advances		582,764	1,180,328
Share of loss from associates		73,868	123,945
Provision for gratuity		(35,991)	34,042
(Reversal) / provision for diminution in the value of investments		(305,810)	105,742
Bad debts written off directly		7,987	21,505
Unrealised loss / (gain) on revaluation of investments classified as held for trading		19,964	(3,615)
Loss / (gain) on sale of fixed assets		13,552	(7,972)
Financial charges on leased assets		34	509
Impairment of goodwill		227,134	201,712
Gain on sale / redemption of securities		(119,149)	-
Other provisions / write offs		162,070	-
		1,003,998	2,074,314
		(2,165,714)	(1,461,014)
(Increase) / decrease in operating assets			
Lendings to financial institutions		(582,683)	2,764,596
Investments in held for trading securities		251,748	(243,125)
Advances		231,959	(1,494,195)
Other assets		45,597	46,143
		(53,379)	1,073,419
Increase / (decrease) in operating liabilities			
Bills payable		350,538	154,975
Borrowings		(2,581,356)	(2,071,492)
Deposits and other accounts		15,298,929	2,887,614
Other liabilities		193,152	(716,778)
		13,261,263	254,319
		11,042,170	(133,276)
Income tax paid		(17,688)	(51,103)
Dividend paid		(18,096)	-
Gratuity paid		23,537	(14,206)
Compensated absences paid		-	(1,204)
Net cash inflow from / (used in) operating activities		11,029,923	(199,789)
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments in) / proceeds from available for sale securities		(3,454,432)	1,763,841
Investments in held to maturity securities		927,849	111,201
Proceeds from / (investments in) associates		123,043	(296,115)
Dividend income received		23,985	80,907
Investments in fixed assets		(151,114)	(1,008,579)
Sale proceeds on disposal of fixed assets		111,268	87,007
Net cash (used in) / inflow from investing activities		(2,419,401)	738,262
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares		3,000,000	-
Share issue cost		(41,498)	-
Payments of lease obligations		(694)	(4,444)
Net cash inflow from / (used in) financing activities		2,957,808	(4,444)
Net increase in cash and cash equivalents		11,568,330	534,029
Cash and cash equivalents at the beginning of the year		3,604,911	3,070,882
Cash and cash equivalents at the end of the year	33	15,173,241	3,604,911

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

President and Chief Executive | Director | Director | Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Statutory reserves	General reserves	(Discount)/ premium on issue of shares	Accumulated losses	Total	Non-controlling interest	Total
	-----------------	-----------------	-----------------	-----------------	(Rupees in ' 000)	-----------------	-----------------	-----------------
Balance as at 31 December 2009 - as previously reported	9,508,617	150,903	384	23,724	(5,296,811)	4,386,817	524,694	4,911,511
Effect of prior year adjustment - net of tax (note 44)	-	-	-	-	281,174	281,174	-	281,174
Balance as at 31 December 2009 - as restated	9,508,617	150,903	384	23,724	(5,015,637)	4,667,991	524,694	5,192,685
Total comprehensive income / (loss) for the year	-	-	-	-	(2,741,315)	(2,741,315)	13,970	(2,727,345)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	37,340	37,340	-	37,340
Transfer to statutory reserve	-	11,440	-	-	(11,440)	-	-	-
Dividends	-	-	-	-	-	-	(3,863)	(3,863)
Balance as at 31 December 2010	9,508,617	162,343	384	23,724	(7,731,052)	1,964,016	534,801	2,498,817
Issuance of right shares (note 21.1)	10,000,000	-	-	(7,000,000)	-	3,000,000	-	3,000,000
Share issue cost (note i)	-	-	-	-	(41,498)	(41,498)	-	(41,498)
Total comprehensive loss for the year	-	-	-	-	(2,509,621)	(2,509,621)	(14,684)	(2,524,305)
Transfer to statutory reserve	-	19,015	-	-	(19,015)	-	-	-
Transferred from statutory reserve to accumulated losses (note ii)	-	(150,903)	-	-	150,903	-	-	-
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	24,295	24,295	-	24,295
Dividends	-	-	-	-	-	-	(18,096)	(18,096)
Balance as at 31 December 2011	19,508,617	30,455	384	(6,976,276)	(10,125,988)	2,437,192	502,021	2,939,213

Note (i) - Represents legal cost and listing fee paid in connection with right issue.

Note (ii) - Represents transfer made during the year in accordance with the decision of the Board of Directors of the holding company and as allowed under Section 21 of the Banking Companies Ordinance, 1962.

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

President and Chief Executive	Director	Director	Director

FOR THE YEAR ENDED 31 DECEMBER 2011

1. THE GROUP AND ITS OPERATIONS

1.1 KASB Bank Limited (the Holding Company) was incorporated in Pakistan on 13 October 1994 as a public limited company under the Companies Ordinance, 1984. The Holding Company received banking license from the SBP on 9 January 1995 and obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on 11 January 1995. The Holding Company is engaged in commercial banking, consumer banking, corporate and investment banking and related services through 104 branches (including 34 sub branches) [2010: 104 branches (including 34 sub branches)] operating in 43 cities. The Holding Company is listed on all the Stock Exchanges in Pakistan.

The Group comprises of:

Holding Company

KASB Bank Limited

Subsidiaries	**Percentage of holding**
KASB Technology Services Limited	100%
KASB Securities Limited	77.12%
KASB Funds Limited	67.18%
KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited]	96.02%
KASB Modaraba	51.60%
Structured Venture (Private) Limited (Indirect Subsidiary)	77.12%

Associates

New Horizon Exploration and Production Limited	40.73%
Shakarganj Food Products Limited	40.20%
KASB International Limited	21.78%
KASB Asset Allocation Fund	69.14%
KASB Stock Market Fund	85.87%
KASB Income Opportunity Fund	49.88%
KASB Islamic Income Opportunity Fund	46.83%
KASB Cash Fund	19.21%
KASB Capital Protected Gold Fund	15.98%

The ultimate parent of the Group is KASB Finance (Private) Limited.

1.2 Brief description of subsidiaries

KASB Technology Services Limited

The Company is a public unlisted company registered under the Companies Ordinance 1984, and is engaged in providing information technology, internet connectivity and telecommunication services.

KASB Securities Limited

The Company is a public listed company having corporate membership of the Karachi Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited and is engaged in the business of stocks, money market, foreign exchange and commodity broking, securities and economic research and investment advisory.

KASB Funds Limited (KFL)

KFL is an unlisted public company licensed to carry out Asset Management and Investment Advisory Services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulation, 2008. The objective of KFL is to float and manage open-end and closed-end mutual funds and to provide investment advisory services. The KFL is currently managing the following funds:

- KASB Stock Market Fund
- KASB Asset Allocation Fund
- KASB Islamic Income Opportunity Fund
- KASB Income Opportunity Fund
- KASB Capital Protected Gold Fund
- KASB Cash Fund

During the year, KFL entered into a scheme of arrangement for acquisition and simultaneous merger under Section 282 (L) of the Companies Ordinance, 1984 with Crosby Asset Management (Pakistan) Limited (CAMPL). The purpose of the acquisition and simultaneous merger was to reduce administrative cost and achieve economies of scale leading to enhanced profitability and to operate business under integrated management. The SECP vide its letter No. SCD/PR&DD/AMCW/CAML&KFL/333/2011 dated 15 July 2011 has sanctioned the scheme with effect from 20 July 2011.

In accordance with the terms of the above referred scheme, the entire undertaking of CAMPL including assets, liabilities, rights and obligations has been transferred to and vest in KFL and as a consideration thereof, KFL is required to pay Rs. 77 million to the shareholders of CAMPL. On the completion of the said merger, the existing shares of CAMPL stand cancelled and CAMPL stands dissolved.

In accordance with the requirements of International Financial Reporting Standards (IFRS) - 3 'Business Combinations', the above amalgamation has been accounted for by applying acquisition method of accounting. Under the said method of accounting, the identifiable assets acquired (including intangible assets), liabilities and contingent liabilities assumed in a business combination are measured initially at the fair value at the acquisition date. The difference between fair values of assets and liabilities and the purchase consideration is treated as a goodwill or gain on acquisition, as the case may be.

- Assets acquired and liabilities assumed

The book value and fair value of the identifiable assets and liabilities of CAMPL as at the date of acquisition were:

	Book value of net assets on acquisition	Fair value of net assets on acquisition
	(Rupees in '000)	
	Un-Audited	
Assets		
Property and equipment	2,475	2,475
Intangible assets		
- computer software	331	331
- management rights	-	17,282
Long term Investments	63,815	63,815
Long term security deposits	508	508
Taxation - net	7,892	7,892
Advances, deposits, prepayments and other receivables	3,106	3,106
Cash and bank balances	2,104	2,104
	80,231	97,513
Liabilities		
Accrued expenses and other liabilities	(196)	(196)
Total identifiable net assets at book value / fair value	80,035	97,317
Less: Purchase consideration		(77,000)
Gain on acquisition of CAMPL's net assets at fair value		20,317

- Management Rights

This represents management rights in respect of the three mutual funds namely Crosby Dragon Fund, Crosby Phoenix Fund and AMZ Income Plus Fund, acquired as a result of the amalgamation of CAMPL with and into KFL above. The fair value of such management rights has been determined on the basis of multi period excess earnings method by the management. In applying the said method, KFL has used the following key assumptions:

(i) Annual average growth of assets under management between 16% to 25%.
(ii) Fresh issue of units estimated between 5% to 7% per annum.
(iii) For capital asset pricing model, cost of equity of KFL has been determined by using interest rate of 20.8%.

- Purchase Consideration

In accordance with the terms of the scheme of arrangement for acquisition and simultaneous merger with CAMPL, KFL was required to pay cash consideration of Rs. 77 million against acquisition and simultaneous merger of CAMPL. During the year, KFL has paid Rs. 47 million to CAMPL and the remaining Rs. 30 million will be paid in due course.

KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited]

The Company is registered under the Companies Ordinance, 1984, and is engaged in the business of floating and managing modaraba. The Company is currently managing KASB Modaraba.

KASB Modaraba

The Modaraba is a multipurpose perpetual modaraba and is engaged in ijarah financing, finance leasing, musharaka financing, murabaha financing, modaraba financing, investment in listed securities and issue of Certificates of Musharaka.

Structured Venture (Private) Limited

The Company is registered under the Companies Ordinance, 1984. The objective of the Company is to capitalize on opportunities across different asset classes, including but not limited to, commodities, structured products, real estate etc.

1.3 The SBP vide BSD Circular No.7 dated 15 April 2009 set the Minimum Capital Requirement (MCR) for the Holding Company up to Rs.10,000 million to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2011 is Rs. 8,000 million. Further, the Holding Company is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Holding Company. The paid up capital of the Holding Company (net of losses) as of 31 December 2011 amounted to Rs. 2,724.140 million and CAR, as disclosed in note 42.2, remained below the prescribed level of 10%.

In view of the above shortfall in meeting the regulatory capital requirements and the financial condition of the Holding Company, the management and sponsors of the Holding Company have taken the following steps:

- During the year ended 31 December 2010, the sponsors of the Holding Company entered into an agreement with a foreign investor for equity investment into the Holding Company. Accordingly, during the current year, the Holding Company has issued additional capital through right issue of shares which resulted in net equity injection of Rs. 3,000 million.

- The Holding Company intends to raise further capital through its sponsors and strategic foreign investors to meet the regulatory capital requirements. Additionally, the Holding Company has plans to augment its TIER II capital through sub-ordinated debt in the near future.

- The management of the Holding Company has prepared financial projections for a period of five years for the purpose of setting the future course of action for the Holding Company. These projections are approved by the Board and envisage additional capital injection through equity and sub-ordinated debt into the Holding Company and indicate future profitable operations based on various assumptions such as growth of deposits and advances, investment returns, future loan losses, interest rates and cost of funds etc.

- The Holding Company has sought an extension of time from the SBP till 30 June 2012 to finalise its capital injection plan and expects a favourable response from the SBP in this regard.

Based on the above, the Holding Company's management and the Board have made an assessment and are satisfied that the Holding Company has adequate resources to continue its business in the foreseeable future and therefore, have prepared these consolidated financial statements on a going concern basis. In making such assessments, the Board has taken into account the material uncertainties with respect to events or conditions that may impact the recapitalisation plan of the Holding Company and consequently, its sustainability in future.

2. BASIS OF PRESENTATION

2.1 These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by a subsidiary are accounted for as a purchase and sale transaction of the underlying goods in these consolidated financial statements in accordance with the accounting policies of the Group.

2.3 Basis of consolidation

These consolidated financial statements include the financial statements of the Holding Company and its subsidiaries.

- The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. In preparing consolidated financial statements, the financial statements of the Holding Company and subsidiaries are consolidated on a line by line basis by adding together like items of assets, liabilities, income and expenses. Significant intercompany transactions have been eliminated.

- Non-controlling interest are the part of the results of the operations and net assets of the subsidiary companies attributable to interests which are not owned by the Group. Interest in the equity of subsidiaries not attributable to the Holding Company is reported in the consolidated statement of changes in equity as non-controlling interest. Profit or loss attributable to non-controlling interest is reported in the consolidated profit and loss account as profit or loss attributable to non-controlling interest.

3. STATEMENT OF COMPLIANCE

3.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise IFRS issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the SECP and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.

3.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for the banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosure" has not been made applicable for the banks. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements.

4. BASIS OF MEASUREMENT

4.1 These consolidated financial statements have been prepared under the historical cost convention except for land and buildings, certain investments and derivative financial instruments which are revalued as referred to in notes 5.4, 5.8 and 5.12 below.

4.2 These consolidated financial statements are presented in Pak Rupees which is the Group's functional currency and presentation currency.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year except as follows:

The Holding Company has adopted the following new and amended IFRSs and related interpretations which became effective during the year:

IAS 24	- Related Party Disclosures (Revised)
IAS 32	- Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
IFRIC 14	- Prepayments of a Minimum Funding Requirement (Amendment)
IFRIC 19	- Extinguishing Financial Liabilities with Equity Instruments

In May 2010, IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifications of wordings. These improvements are listed below:

IFRS 3	- Business Combinations
	- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
	- Measurement of non-controlling interests
	- Un-replaced and voluntarily replaced share-based payment awards
IFRS 7	– Financial Instruments: Disclosures
	- Clarification of disclosures

IAS 1 – Presentation of Financial Statements
- Clarification of statement of changes in equity

IAS 27 – Consolidated and Separate Financial Statements
- Transition requirements for amendments made as a result of IAS 27 "Consolidated and Separate Financial Statements"

IAS 34 – Interim Financial Reporting
- Significant events and transactions

IFRIC 13 – Customer Loyalty Programmes
- Fair value of award credits

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on these consolidated financial statements.

5.2 Cash and cash equivalents

These include cash and balances with treasury banks and balances with other banks less overdrawn nostro accounts.

5.3 Lendings to / borrowings from financial institutions

The Group enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase contract

Securities sold subject to a repurchase contract (repo) are retained in the consolidated financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued over the period of the contract and recorded as an expense.

Purchase under resale contract

Securities purchased under a contract to resell (reverse repo) are not recognised in the consolidated financial statements as investments and the amount extended to the counter party is included in lendings. These transactions are accounted for on the settlement date. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis over the period of the contract and recorded as income.

5.4 Investments

5.4.1 Investment in associates

Associates are those companies in which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting.

5.4.2 Other investments are classified as follows:

These are classified as follows:

Held-for-trading
These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity
These are investments with fixed or determinable payments and fixed maturities which the Group has the intention and ability to hold till maturity.

Available-for-sale
These are investments which do not fall under the held-for-trading and held-to-maturity categories.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Group commits to purchase or sell the investments.

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investments. Held for trading investments are initially measured at fair value and transaction costs are expensed in the profit and loss account.impairment loss is recognised in the profit and loss account.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity are subsequently stated at market values. Investments classified as held to maturity are carried at amortised cost. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the consolidated statement of financial position below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Impairment loss in respect of investments (other than debt securities) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations for Corporate / Commercial Banking issued by the SBP (Prudential Regulations). In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of assets is taken to the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

5.5 Advances

Loans and advances

These are stated net of specific and general provisions, which are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. Advances in respect of which the Group does not expect any recoveries in future years are written off.

Net investment in finance lease

These are stated at net of provisions made against non-performing leases. Leases where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

Ijarah

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Murabaha

Funds disbursed under murabaha arrangements for purchase of goods are recorded as advance for murabaha. On culmination of murabaha i.e. sale of goods to customers, murabaha receivables are recorded at the sale price net of deferred income. Goods purchased but remaining unsold and advances against purchase of goods at the reporting date are recorded as inventories and other assets respectively.

5.6 Trade debts

Trade debts are recognised at fair value and subsequently measured at amortised cost. A provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the trade debt. Trade debts considered irrecoverable are written off.

5.7 Biological assets

The Group's biological assets comprise of livestock. Livestocks are measured at their fair value less estimated point-of-sale costs. The Group has determined the fair value of livestocks based on market prices of livestock of similar age, breed, and genetic merit.

5.8 Operating fixed assets

Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. Other operating assets are carried at cost less accumulated depreciation and impairment, if any.

Depreciation on fixed asset is charged to the consolidated profit and loss account applying the straight line method in accordance with the rates specified in note 13.2 to the consolidated financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation of fixed assets is credited to the "surplus on revaluation of assets" account shown below equity. The Group has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and

- an amount equal to incremental depreciation for the year (net of deferred taxation) is transferred from surplus on revaluation of assets to accumulated loss through consolidated statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

Gains / losses on disposal of fixed assets, if any, are recognised in the profit and loss account currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to accumulated loss.

Tangible operating assets - leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and impairment, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods. The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Group.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment, if any. Amortization is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortized on prorata basis i.e. full month amortization in the month of purchase and no amortization in the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less impairment in value, if any.

Capital work-in-progress

These are stated at cost less accumulated impairment, if any.

5.9 Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at cost less accumulated impairment, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as referred to in note 5.11 below. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.10 Non-banking assets acquired in satisfaction of claims

These are initially measured at the settlement value assigned for the purpose of extinguishment of borrowers' liabilities. Subsequent to initial recognition, these are carried at lower of their carrying values and fair values. Any resulting impairment loss is taken to profit and loss account currently. For subsequent increase in fair value, gain is recognized only to the extent it reverses previously recognized impairment loss.

5.11 Impairment of non-financial assets, goodwill and investments in associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an assets or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill and intangible assets having indefinite useful life, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exists or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceeds its carrying recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss account.

Impairment losses relating to goodwill and intangible assets having indefinite useful life are not reversed in future periods.

5.12 Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Group becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

Derivative financial instruments

These are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated financial statements only when the Group has a legally enforceable right to set off and the Group intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

5.13 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.14 Provisions against off-balance sheet obligations

The Holding Company, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Holding Company's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.15 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.16 Employees' benefits

Defined contribution plan

The Group operates contributory provident fund for all eligible employees to which equal contributions at the rate of 8.33 % of basic salary are made by Group and the employees. The contributions are recognised as employee benefit expense when they are due.

Defined benefit scheme

The Group operates an approved unfunded gratuity scheme for all eligible employees. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuation is carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense in the profit and loss account.

5.17 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognized on receipt basis. Interest / return / markup on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.

Rentals from ijarah are recognised as income over the term of the contract, net of depreciation expense relating to the ijarah asset.

Profit on musharaka / murabaha is recognized on a time proportion basis over the period of musharaka / murabaha arrangements.

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio where actual gain / loss on transaction is computed upon termination / completion of transaction.

Management fee from open-ended funds is recognized on a daily basis by applying the rates to the net asset value of unit trusts, at the close of business of each calendar day and is accrued at the month end.

Dividend income is recognised when the right to receive is established.

Gain or loss on sale of investments is recognised in profit and loss account in the year in which it arises.

Fees, commission and brokerage income is recognised as services are performed.

Other income is recognised on accrual basis.

5.18 Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

5.19 Share issue cost

Share issue cost directly attributable to issuance of shares is recognised as a deduction from equity.

5.20 Dividends and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of IAS 10, "Events after the Balance Sheet Date" in the year in which they are approved / transfers are made.

5.21 Earnings / loss per share

The Group presents basic and diluted earnings / loss per share for its shareholders. Basic earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted earnings / loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.22 Segment reporting

The Group has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segments within the Group have been categorised into the following classifications of business segments in accordance with the requirements of the SBP:

(a) Business segments

Commercial banking

This includes strategic partnership with corporate and SME sector entities to provide working capital financing, trade financing and cash management services, project finance, real estate, export finance, leasing, lending, guarantees, bills of exchange and deposits.

Retail banking

This includes mortgage finance and personal loans to individual customers.

Trading and sales

This includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Corporate finance

This includes services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, debts (government , high yield), equity, syndication and secondary private placement.

Asset management

Asset management includes management fee received from open-end funds and modaraba managed by the Group.

(b) Geographical segments

The operations of the Group are currently based only in Pakistan.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has exercised judgments and estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

6.1 Basis of preparation of consolidated financial statements

As referred to note in 1.3, the management and the Board have made an assessment and are satisfied that the Holding Company has adequate resources to continue in business on a sustainable basis for the foreseeable future and consequently, would be able to realise its assets and discharge its liabilities in the normal course of business. Therefore, the consolidated financial statements of the Holding Company have been prepared on a going concern basis.

6.2 Provision against non-performing loans and advances

The Group reviews its loan portfolio to assess amount of non-performing loans and determine provision required there against on a quarterly basis. Provisions are made in accordance with the requirements of Prudential Regulations and charged to profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the Group) for classification of non-performing loans and advances. The provision against such non-performing loans and advances is made at specified percentages as prescribed under Prudential Regulations after taking into account the forced sale value of collaterals held by the Group. Such regulations also require the Group to maintain general provision against consumer advances at specified percentage of consumer's portfolio.

6.3 Impairment of investments

The Group assesses at each reporting date whether there is an indication of impairment of any of its investments in associates. In case such indications exist, the Group estimates the recoverable amount of investments which is the higher of investments' fair value less cost to sell and their value in use determined on the basis of estimated future cash flows.

The Group reviews its investment in debt securities on a quarterly basis, to assess whether they are impaired, in accordance with the requirements of Prudential Regulations.

The Group also records impairment charge on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

6.4 Goodwill and intangible assets having indefinite useful life

The Group carries out annual impairment testing in respect of the carrying value of goodwill and intangible assets having indefinite useful lives. Such impairment testing involves determination of the recoverable amount of the CGUs to which such asset pertains. The estimates and assumptions used for such impairment testing are disclosed in note 15.3.1 to the consolidated financial statements.

6.5 Deferred tax assets

These are recognized in respect of tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits. The factors considered by the management in this respect are detailed in note 14.1 to the consolidated financial statements.

6.6 Defined benefit scheme

The cost of employee's gratuity scheme is determined using an actuarial valuation which involves assumptions about discount rates and future salary increases as disclosed in note 36 to the consolidated financial statements.

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

	Effective date (accounting periods beginning on or after)
IFRS 7 - Financial Instruments : Disclosures - (Amendments)	
- Amendments enhancing disclosures about transfers of financial assets	01 July 2011
- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01 January 2013
IAS 1 - Presentation of financial Statements - Presentation of items of comprehensive income	01 July 2012
IAS 12 - Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 - Employee Benefits - (Amendment)	01 January 2013

The Group expects that the adoption of the above revisions and amendments of the standards will not materially affect the Holding Company's consolidated financial statements in the period of initial application other than the amendments to IAS-19 ' Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e, the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

The Group is currently assessing the impact of the above amendments which are effective from 1 January 2013 on the consolidated financial statements. However, it is expected that the adoption of the said amendments will result in change in the Group's accounting policy related to recognition of actuarial gains and losses as referred to in note 5.16 to the consolidated financial statements.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by SECP for the purpose of applicability in Pakistan.

	IASB Effective date (annual periods beginning on or after)
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

	Note	2011	2010
		(Rupees in '000)	
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		904,396	895,679
Foreign currency		292,377	231,350
National Prize Bonds		4,628	3,113
		1,201,401	1,130,142
With State Bank of Pakistan in:			
Local currency current account	8.1	1,759,644	1,674,497
Foreign currency current account	8.2	2,381	3,437
Foreign currency deposit account	8.3	1,599,235	256,967
		3,361,260	1,934,901
With National Bank of Pakistan in local currency current account		260,090	207,581
		4,822,751	3,272,624

8.1 Represent accounts maintained with the SBP as per the requirements of Section 36 of the SBP Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by SBP.

8.2 Represents US Dollar Settlement Account maintained with SBP.

8.3 Represent foreign currency cash reserves maintained with SBP equivalent to at least 20 percent of the Holding Company's foreign currency deposits mobilised under the FE-25 scheme.

	Note	2011	2010
9. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		88,726	51,442
On deposit account		279,648	212,070
		368,374	263,512
Outside Pakistan			
On current account		7,130,483	58,583
On deposit account	9.1	3,431,568	38,211
		10,562,051	96,794
		10,930,425	360,306

9.1 These carry profit rates ranging from 0.1% to 14.48% (2010: 1% to 16.28%) per annum.

	Note	2011	2010
10. LENDINGS TO FINANCIAL INSTITUTIONS AND OTHERS			
In local currency			
Clean placements	10.1	334,400	40,000
Repurchase agreement lendings (Reverse Repo)	10.2	288,283	-
		622,683	40,000

10.1 These carry profit rates ranging from 12.5% to 15.85% (2010: 15.5%) per annum and have matured in January 2012.

10.2 This carry mark-up rate of 11.9% (2010: Nil) per annum and have matured in January 2012.

10.3 Securities held as collateral against repurchase agreement lendings

	Note	2011 Held by Group	2011 Given as collateral	2011 Total	2010 Held by Group	2010 Given as collateral	2010 Total
		-----------------------------------Rupees in '000-----------------------------------					
Market Treasury Bills	10.3.1	288,283	-	288,283	-	-	-

10.3.1 As of 31 December 2011, the market value of the above securities amounted to Rs. 299.875 million (2010: Nil).

11. INVESTMENTS

11.1 Investments by types

	Note	2011 Held by Group	2011 Given as collateral	2011 Total	2010 Held by Group	2010 Given as collateral	2010 Total Restated (Note 44)
		-----------------------------------Rupees in '000-----------------------------------					
Held for trading securities							
Open ended mutual funds	11.11	2,299	-	2,299	86,128	-	86,128
Listed Term Finance Certificates	11.8	45,369	-	45,369	180,169	-	180,169
Ordinary shares of listed companies	11.6	127,205	-	127,205	156,634	-	156,634
		174,873	-	174,873	422,931	-	422,931
Available for sale securities							
Pakistan Investment Bonds		790,937	-	790,937	551,760	-	551,760
Market Treasury Bills		9,160,103	-	9,160,103	3,949,452	981,149	4,930,601
Listed Term Finance Certificates	11.8	315,243	-	315,243	381,635	-	381,635
Unlisted Term Finance Certificates	11.9	707,665	-	707,665	776,672	-	776,672
Open ended mutual funds	11.11	6,826	-	6,826	500,000	-	500,000
Ordinary shares of listed companies	11.6	190,745	-	190,745	183,411	-	183,411
Ordinary shares of unlisted companies	11.7	1,355,226	-	1,355,226	1,355,226	-	1,355,226
		12,526,745	-	12,526,745	7,698,156	981,149	8,679,305
Held to maturity securities	11.1.1						
Pakistan Investment Bonds		521,424	-	521,424	640,344	-	640,344
Sukuk Bonds - unlisted	11.10	17,418	-	17,418	19,347	-	19,347
Unlisted Term Finance Certificates	11.9	429,604	-	429,604	1,236,604	-	1,236,604
		968,446	-	968,446	1,896,295	-	1,896,295
Associates	11.12	2,246,622	-	2,246,622	2,548,177	-	2,548,177
Investments at cost		15,916,686	-	15,916,686	12,565,559	981,149	13,546,708
Less: provision for diminution in the value of investments	11.3	(276,057)	-	(276,057)	(589,182)	-	(589,182)
Investments - net of provisions		15,640,629	-	15,640,629	11,976,377	981,149	12,957,526
Deficit / surplus on revaluation of investments classified as held for trading investments		(20,039)	-	(20,039)	3,615	-	3,615
Surplus / (deficit) on revaluation of investments classified as available for sale investments	22.2	(31,887)	-	(31,887)	(101,184)	(417)	(101,601)
Total investments after revaluation		15,588,703	-	15,588,703	11,878,808	980,732	12,859,540

11.1.1 The aggregate market value of held to maturity securities as on 31 December 2011 amounted to Rs. 928.599 million (2010: Rs.1,804.762 million).

	Note	2011	2010
		(Rupees in '000)	
11.2 Investments by segments			
Federal Government Securities			
- Market Treasury Bills	11.4	9,160,103	4,930,601
- Pakistan Investment Bonds	11.5	1,312,361	1,192,104
		10,472,464	6,122,705
Fully paid-up ordinary shares			
- Listed companies	11.6	317,950	340,045
- Unlisted companies	11.7	1,355,226	1,355,226
		1,673,176	1,695,271
Term Finance Certificates			
- Listed	11.8	360,612	561,804
- Unlisted	11.9	1,137,269	2,013,276
		1,497,881	2,575,080
Sukuk Bonds	11.10	17,418	19,347
Units of Mutual Funds	11.11	9,125	586,128
Associates	11.12		
Listed			
KASB Asset Allocation Fund		216,836	281,443
KASB Capital Protected Gold Fund		83,220	77,009
KASB Cash Fund		125,606	195,548
KASB Islamic Income Opportunity Fund		104,798	100,840
KASB Income Opportunity Fund		196,675	282,073
KASB Stock Market Fund		95,717	187,010
Unlisted			
KASB International Limited		32,100	40,238
New Horizon Exploration and Production Limited		873,916	876,692
Shakarganj Food Products Limited		517,754	507,324
		2,246,622	2,548,177
Investments at cost		15,916,686	13,546,708
Less: provision for diminution in the value of investments	11.3	(276,057)	(589,182)
Investments - net of provisions		15,640,629	12,957,526
(Deficit) / surplus on revaluation of investments classified as held for trading investments		(20,039)	3,615
Surplus / (deficit) on revaluation of investments classified as available for sale	22.2	(31,887)	(101,601)
Total investments after revaluation		15,588,703	12,859,540

11.3 Particulars of provision for diminution in the value of investments

	2011	2010
Opening balance	589,182	707,972
Charge for the year	128,089	105,742
Reversal of provision	(433,899)	-
	(305,810)	105,742
Provision written off	(7,315)	(224,532)
Closing balance	276,057	589,182

	Note	2011	2010
		(Rupees in '000)	
11.3.1 Particulars of provision in respect of type and segment			
Available for sale investments			
Unlisted Term Finance Certificates		81,997	120,762
Ordinary shares of listed companies		113,693	83,986
Ordinary shares of unlisted company		5,680	5,680
		201,370	210,428
Associates			
KASB Stock Market Fund	11.3.2	46,560	-
KASB International Limited		17,911	-
KASB Asset Allocation Fund		10,216	-
New Horizon Exploration and Production Limited		-	378,754
		276,057	589,182

11.3.2 During the year, the management has carried out impairment testing of its investments in associates as required by IAS 36 – "Impairment of Assets". The recoverable amounts of these investments have been computed using 'value in use' calculations with the investments in certain mutual funds which have been computed on the basis of the investments' 'fair value less cost to sell'.

Value in use computations were performed using discounted cash flows methodology, covering cash flow projections for a period of 5 years with the exception of New Horizon Exploration and Production Limited for which projections were prepared for a period of 30 years based on the expected reserve and field profile. The calculations of 'value in use' are most sensitive to the following assumptions:

	Discount rate	Terminal growth rate
	--------------- (%)	---------------
Associates		
New Horizon Exploration and Production Limited	21.7%	-
Shakarganj Food Products Limited	22.4%	5%

In addition, the management has used various business assumptions for estimating future cash flows of the respective companies which are based on industry data, historical performance and trends for growth rates, market share etc.

Based on such impairment testing, an additional impairment loss of Rs. 39.696 million and a reversal of impairment loss previously recognised of Rs. 378.754 million has been made in these consolidated financial statements.

11.4 Market Treasury Bills

These securities have a maturity period of three months to one year (2010: three months to one year), with yield ranging between 11.77% to 13.79% (2010: 11.99% to 13.19 %) per annum. These securities have an aggregate face value of Rs. 9,873 million (2010: Rs. 5,051 million).

11.5 Pakistan Investment Bonds

These securities have a maturity period of three, five and ten years (2010: three, five and ten years) with interest rates ranging between 8% to 13% (2010: 8% to 13%) per annum. These securities have an aggregate face value of Rs. 1,307 million (2010: Rs. 1,147 million).

11.6 Ordinary shares of listed companies

Name of security	Number of shares of Rs.10/- each 2011	Number of shares of Rs.10/- each 2010	Rating 2011	Rating 2010	Cost 2011	Cost 2010	Market value 2011	Market value 2010
					(Rupees in '000)			
Held for trading								
Agritech Limited	686,000	654,000	D	SD	11,220	19,553	10,537	15,631
Agritech LOR	110,000	-	D	-	1	-	1	-
Allied Bank Limited	-	103,313	-	AA	-	7,283	-	7,247
D.G. Khan Cement Company Limited	3,140,000	189,000	-	-	59,075	5,942	59,754	5,702
Engro Corporation Limited	-	200,000	-	AA	-	38,726	-	38,762
Fatima Fertilizer Company Limited	222,500	-	A+	-	5,164	-	5,100	-
Fauji Fertilizer	10,000	-	-	-	1,537	-	1,496	-
First Capital Securities Limited	3,000,000	-	-	-	6,840	-	5,580	-
Hub Power	16,000	-	AA+	-	577	-	547	-
Ibrahim Fibres Limited	55,000	-	AA-	-	1,982	-	1,487	-
ICI Pakistan Limited	-	28,500	-	-	-	4,147	-	4,111
Jahangir Siddiqui & Company Limited	90,000	-	AA	-	429	-	363	-
JS Growth Funds	190,000	-	-	-	1,131	-	893	-
Kot Addu Power Company Limited	-	1,445,690	-	-	-	58,037	-	58,811
Lucky Cement Limited	-	75,000	-	-	-	5,836	-	5,684
MCB Bank Limited	25,000	-	AA+	-	3,593	-	3,365	-
Millat Tractors Limited	-	10,000	-	-	-	5,001	-	4,998
Muree Brewery Company	20,000	-	-	-	1,608	-	1,270	-
National Bank of Pakistan Limited	30,000	-	AAA	-	1,253	-	1,232	-
Nishat Mills Limited	10,000	-	AA-	-	422	-	405	-
Nishat Power	85,000	-	AA	-	1,117	-	1,101	-
Oil & Gas Development Company Limited	-	5,744	-	AAA	-	984	-	981
Pakgen Power Limited	635,500	-	AA	-	10,147	-	7,156	-
Pakistan Oilfields Limited	2,500	17,000	-	-	872	5,083	866	5,031
Pakistan Petroleum Ltd	44,400	-	-	-	7,815	-	7,473	-
Pakistan Telecommunication Company Limited	1,190,000	-	-	-	12,148	-	12,364	-
Tri Pack Films Limited	-	20,000	-	A+	-	2,527	-	2,443
United Bank Limited	5,000	50,000	AA+	AA+	274	3,515	262	3,412
					127,205	156,634	121,252	152,813
Available for sale								
Engro Chemical Pakistan Limited	21,000	100,000	AA	AA	2,304	19,999	1,947	19,381
ICI Pakistan Limited	55,000	55,000	-	-	9,903	9,903	6,615	7,933
KASB Bank Limited	19,858,649	19,858,649	A-	A-	116,472	116,472	21,844	49,845
Network Microfinance Bank Limited*	3,359,198	3,359,198	BBB	BBB+	10,078	10,078	16,762	5,374
Pakgen Power Limited	933,590	-	AA	-	17,738	-	10,512	-
Pakistan Petroleum Limited	42,000	-	-	-	7,291	-	7,069	-
Shell Pakistan Limited	95,000	95,000	-	-	26,959	26,959	18,077	19,780
					190,745	183,411	82,826	102,313

* These shares had been blocked by the Central Depository Company of Pakistan Limited in compliance with BPRD Circular No. 4 dated 22 May 2008 issued by the SBP. However, subsequent to the year end, these shares have been sold to a Group of Investors after obtaining prior approval from the SBP.

11.7 Ordinary shares of unlisted companies - Available for sale

Name of security	Number of shares 2011	Number of shares 2010	Rating 2011	Rating 2010	Cost 2011	Cost 2010	Carrying value 2011	Carrying value 2010
					(Rupees in '000)			
Al Jomiah Power Limited Face value per share : USD 1,000/-	3,370	3,370	-	-	184,197	184,197	184,197	184,197
Evolvence Capital Limited - incorporated in British Virgin Islands (related party) Face value per share : USD 0.0845/- Breakup value per share: USD 2.59/- (2010: USD 2.40/-) [based on audited financial statements of 31 March 2011] Chief Executive: Mr. Khaled Al Muhairy	5,400,000	5,400,000	-	-	1,155,349	1,155,349	1,155,349	1,155,349
Khushhali Bank Limited Face value per share : Rs. 10/- Breakup value per share: Rs. 13.02/- (2010: Rs. 12.18/-) [based on audited financial statements of 31 December 2010] Chief Executive: Mr. M Ghalib Nishtar	1,000,000	1,000,000	A-1	A-	10,000	10,000	10,000	10,000
Pakistan Export Finance Guarantee Agency Limited Face value per share : Rs. 10/- Breakup value per share: Rs. 0.50/- (2010: Rs. 0.50/-) [based on un-audited financial statements of 30 June 2010] Chief Executive: Mr. S.M. Zaeem	568,044	568,044	-	-	5,680	5,680	-	-
					1,355,226	1,355,226	1,349,546	1,349,546

11.8 Listed Term Finance Certificates

Name of security	No. of certificates of Rs. 5,000/- each 2011	No. of certificates of Rs. 5,000/- each 2010	Rating 2011	Rating 2010	Cost 2011	Cost 2010	Market value 2011	Market value 2010
					(Rupees in '000)			
Held for trading								
NIB Bank Limited	-	22,030	-	AA / A1+	-	107,949	-	107,960
Pace (Pakistan) Limited	10,000	10,000	D	AA / A1+	45,369	45,339	25,099	45,389
Soneri Bank Limited	-	2,000	-	A+	-	9,952	-	9,952
United Bank Limited (3rd Issue)	-	3,400	-	AA	-	16,929	-	16,929
					45,369	180,169	25,099	180,230
Available for sale								
Allied Bank Limited	2,000	2,000	AA-	AA-	9,992	9,996	9,476	9,616
Telecard Limited	3,000	3,000	D	BBB/A3	5,389	5,334	5,389	5,276
Trust Investment Bank Limited	9,000	9,000	BBB	BBB	21,385	32,051	21,587	32,010
United Bank Limited (2nd Issue)	16,232	16,232	AA	AA	81,137	81,141	77,121	71,097
United Bank Limited (4th Issue)	18,000	18,000	AA	AA	84,985	84,580	89,605	85,541
World Call Telecom Limited	39,348	39,348	BBB	A	112,355	168,533	97,747	163,754
					315,243	381,635	300,925	367,294

11.8.1 Particulars of Listed Term Finance Certificates - Available for sale

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Allied Bank Limited	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and subsequent installment of Rs 4,981 per certificate.	August 2019
Telecard Limited	Six months KIBOR + 3.75%	Semi-annually	Principal to be paid in 13 unequal installments.	May 2015
Trust Investment Bank Limited	Six months KIBOR + 1.85%	Semi-annually	Principal to be paid in 10 installments. First 2 installments of Re. 1 per certificate and 8 subsequent installment of Rs. 625 per certificate.	July 2013
United Bank Limited (2nd Issue)	9.49%	Semi-annually	Principal to be paid in 16 installments. First 15 installements of Rs. 0.10 per certificate and last installment of Rs. 4998.5 per certificate.	March 2013
United Bank Limited (4th Issue)	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and subsequent installment of Rs 4,981 per certificate.	February 2018
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Principal to be paid in 10 installments. First 3 installments of Re. 1 per certificate and 7 subsequent installments of Rs. 714 per certificate.	October 2013

11.9 Unlisted Term Finance Certificates

Name of security	Note	No. of certificates of Rs. 5,000/- each 2011	No. of certificates of Rs. 5,000/- each 2010	Rating 2011	Rating 2010	Cost 2011	Cost 2010
						(Rupees in '000)	
Available for sale							
Agritech Limited	11.9.1	35,000	30,000	D	CCC	168,766	150,097
Azgard Nine Limited (3rd Issue)	11.9.1	11,400	5,600	D	CCC(RW)	42,576	28,066
Engro Chemical Pakistan Limited		41,640	41,640	A	AA	209,343	209,447
New Khan Transport Company Limited*	11.9.1	-	140	-	-	-	70,762
Nishat Chunian Limited		38,500	39,000	A+	A+	192,500	195,000
Pakistan Mobile Communication (Private) Limited		5,000	5,000	A+	A+	12,480	20,800
Shakarganj Mills Limited	11.9.1	20,000	20,000	D	D	82,000	100,000
Tandlianwala Sugar Mills Limited		-	5,000	-	-	-	2,500
						707,665	776,672
Held to maturity							
Avari Hotel International		60,000	60,000	A-	A-	254,744	254,744
Azgard Nine Limited (3rd Issue)	11.9.1	35,000	35,000	D	CCC(RW)	174,860	174,860
Power Holding (Private) Limited		-	- *	-	-	-	807,000
						429,604	1,236,604
						1,137,269	2,013,276

11.9.1 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Holding Company has availed relaxation in respect of provisioning against certain non-performing securities to the extent of the Rs. 352.921 million (2010: Rs. 176.359 million).

* Represents Pre-IPO investment.

11.9.2 Particulars of Unlisted Term Finance Certificates - Available for sale

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Agritech Limited	Six months KIBOR + 1.75%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and 10 subsequent installments of Rs 499.6 per certificate.	November 2014
Azgard Nine Limited	Six months KIBOR + 1%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and 10 subsequent installments of Rs 499.6 per certificate.	December 2014
Engro Chemical Pakistan Limited	Six months KIBOR + 1.7%	Semi-annually	Bullet payment at the end of term.	March 2018
Nishat Chunian Limited	Three months KIBOR + 2.25%	Quarterly	Principal to be paid in16 equal quarterly installments.	September 2015
Pakistan Mobile Communication (Private) Limited	Six months KIBOR + 2.85%	Semi-annually	Principal to be paid in 14 installments. First 8 installments of Re. 1 per certificate and 6 subsequent installments of Rs. 832 per certificate.	June 2013
Shakarganj Mills Limited	Six months KIBOR + 2.75%	Semi-annually	Principal to be paid in 10 equal installments.	September 2014
Avari Hotel Limited	1 year KIBOR + 2.50%	Semi-annually	Principal to be paid in 3 installments. First installment will be of Rs 2807.79 per certificate, second installement of Rs. 561.42 and third installments shall be of 1,630.77	October 2014

11.10 Sukuk Bonds - Held to maturity

	No. of certificates of Rs. 5,000/- each 2011	2010	Rating 2011	2010	Cost 2011	2010
					----(Rupees in '000)----	
Kohat Cement Company Limited	2,000	2,000	-	-	7,060	8,980
Maple Leaf Cement Factory Limited	2,000	2,000	D	BBB	9,983	10,000
Maple Leaf Cement Factory Limited	75	75	D	BBB	375	367
					17,418	19,347

11.11 Units of mutual funds

Name of fund	Number of units 2011	2010	Rating 2011	2010	Cost 2011	2010	Net assets value 2011	2010
					------------------- (Rupees in '000) -------------------			
Held for trading								
ABL Cash Fund	-	2,584,318	-	AA+(f)	-	25,000	-	25,866
AMZ Plus Income Fund	36,669	-	AM3		2,299	-	3,857	-
BMA Empress Cash Fund	-	1,031,821	-	AM2-	-	10,000	-	10,914
MCB Cash Management Optimizer Fund	-	554,735	-	AA (f)	-	51,128	-	56,698
					2,299	86,128	3,857	93,478
Available for sale								
AMZ Plus Income Fund	108,880	-	AM3	-	6,826	-	11,453	-
NAFA Cash Fund	-	46,474,448	-	A+(f)	-	500,000	-	473,264
					6,826	500,000	11,453	473,264

	Note	Number of shares / units 2011	2010	Carrying value 2011	2010
				(Rupees in '000)	
11.12 Associates (under equity method of accounting)					
KASB Asset Allocation Fund Par value per unit: Rs 50 /- Net asset value per unit: Rs. 33.60/- (2010: Rs. 43.80/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 69.14% (2010: 66.52%) Management Company - KASB Funds Limited	11.12.1	6,453,449	6,425,641	216,836	281,443
KASB Capital Protected Gold Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 104.1354/- (2010: Rs. 105.26/-) [based on reviewed financial statements for the period ended 31 December 2011) Percentage of holding: 15.98% (2010: 15.81%) Management Company - KASB Funds Limited	11.12.2	799,149	731,634	83,220	77,009
KASB Cash Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 106.1411/- (2010: Rs. 101.01/-) [based on reviewed financial statements for the period ended 31 December 2011) Percentage of holding: 19.21% (2010: 30.21%) Management Company - KASB Funds Limited		1,165,119	1,375,982	125,606	195,548
KASB Income Opportunity Fund Par value per unit: Rs 100 /- Net asset value per unit: 53.9013/- (2010: Rs. 83.92/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 49.88% (2010: 38.42%) Management Company - KASB Funds Limited		3,648,800	3,361,101	196,675	282,073

	Note	2011	2010	2011	2010
		Number of shares / units		Carrying value	
				(Rupees in '000)	
KASB Islamic Income Opportunity Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 101.0511/- (2010: Rs. 97.23/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 46.83% (2010: 47.94%) Management Company - KASB Funds Limited		**1,037,084**	**1,037,084**	**104,798**	**100,840**
KASB Stock Market Fund Par value per unit: Rs 50 /- Net asset value per unit: Rs. 23.6776/- (2010: Rs. 29.73/-) [based on reviewed financial statements for the period ended 31 December 2011] Percentage of holding: 85.87% (2010: 63.75%) Management Company - KASB Funds Limited	11.12.1	4,042,500	6,289,271	95,717	187,010
KASB International Limited - incorporated in Mauritius Face value per share: USD 1 /- Break-up value per share: Rs. 84.65/- (2010: Rs. 177.24/-) [based on unaudited financial statements for the period ended 31 December 2011] Percentage of holding: 21.78% (2010: 21.78%) Chief Executive: Mr. Nadir Rahman		283,000	283,000	32,100	40,238
New Horizon Exploration and Production Limited Face value per share: Rs 1 /- Break-up value per share: Rs. 2.71/- (2010: Rs. 3.16/-) [based on unaudited financial statements for the period ended 31 December 2011] Percentage of holding: 42.95% (2010: 42.95%) Chief Executive: Syed Zafar Ahmed	11.12.1	99,200,000	99,200,000	873,916	876,692
Shakarganj Food Products Limited Face value per share: Rs 10 /- Break-up value per share: Rs. 2.72/- (2010: Rs. 2.54/-) [based on unaudited financial statements for the period ended 31 December 2011] Percentage of holding: 40.20% (2010: 40.20%) Chief Executive: Mr. Anjum Saleem		60,950,000	60,950,000	517,754	507,324
				2,246,622	2,548,177

11.12.1 Includes 5,019,070 units of KASB Asset Allocation Fund, 2,429,696 units of KASB Stock Market Fund and 61,600,000 ordinary shares of New Horizon Exploration and Production Limited that have been classified by the Group as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

11.12.2 Includes investment in seed capital of KASB Capital Protected Gold Fund amounting to Rs. 50 million (2010: Rs. 50 million) which is required to be held up till 19 March 2012.

11.13 Reconciliation of investments in associates

Particulars	2011									
	Shakarganj Food Products Limited	New Horizon Exploration and Production Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	KASB Stock Market Fund	KASB Cash Fund	KASB Capital Protected Gold Fund	KASB International Limited	Total
	(Rupees in '000)									
As at 1 January 2011	507,324	876,692	282,073	281,443	100,840	187,010	195,548	77,009	40,238	2,548,177
Net investments during the year	-	-	(114,639)	377	2,345	(64,575)	(71,529)	-	-	(248,021)
	507,324	876,692	167,434	281,820	103,185	122,435	124,019	77,009	40,238	2,300,156
Post-acquisition changes during the year:										
Recognised in the profit and loss account	10,430	(2,776)	23,959	(74,789)	(5,573)	(26,718)	3,526	6,211	(8,138)	(73,868)
Recognised in surplus / deficit on revaluation of assets	-	-	5,282	9,805	7,186	-	-	-	-	22,273
	10,430	(2,776)	29,241	(64,984)	1,613	(26,718)	3,526	6,211	(8,138)	(51,595)
	517,754	873,916	196,675	216,836	104,798	95,717	127,545	83,220	32,100	2,248,561
Dividend income received during the year	-	-	-	-	-	-	(1,939)	-	-	(1,939)
At 31 December 2011 - before impairment	517,754	873,916	196,675	216,836	104,798	95,717	125,606	83,220	32,100	2,246,622
Provision for diminution in the value of investment	-	-	-	(10,216)	-	(46,560)	-	-	(17,911)	(74,687)
At 31 December 2011	517,754	873,916	196,675	206,620	104,798	49,157	125,606	83,220	14,189	2,171,935

Reconciliation of investments in associates

Particulars	Shakarganj Food Products Limited	New Horizon Exploration and Production Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	KASB Stock Market Fund	KASB Cash Fund	KASB Capital Protected Gold Fund	KASB International Limited	Total
	2010									
	(Rupees in '000)									
As at 1 January 2010	537,592	753,754	300,368	287,904	101,443	170,209	87,432	100,000	37,305	2,376,007
Net investments during the year	-	121,000	(32,809)	684	2,134	30,261	96,399	(28,896)	-	188,773
	537,592	874,754	267,559	288,588	103,577	200,470	183,831	71,104	37,305	2,564,780
Post-acquisition changes during the year:										
Recognized in the profit and loss account	(30,268)	1,938	(115,125)	10,868	(392)	(13,460)	13,656	5,905	2,933	(123,945)
Recognized in surplus / deficit on revaluation of assets	-	-	129,639	(377)	(2,345)	-	-	-	-	126,917
	(30,268)	1,938	14,514	10,491	(2,737)	(13,460)	13,656	5,905	2,933	2,972
	507,324	876,692	282,073	299,079	100,840	187,010	197,487	77,009	40,238	2,567,752
Dividend income received during the year	-	-	-	(17,636)	-	-	(1,939)	-	-	(19,575)
At 31 December 2010 - before impairment	507,324	876,692	282,073	281,443	100,840	187,010	195,548	77,009	40,238	2,548,177
Provision for diminution in the value of investment	-	-	-	-	-	-	-	-	-	-
At 31 December 2010	507,324	876,692	282,073	281,443	100,840	187,010	195,548	77,009	40,238	2,548,177

		Note	2011	2010
12.	**ADVANCES**		**(Rupees in '000)**	
	Loans, cash credits, running finances, etc. - in Pakistan	12.2	33,099,718	33,533,900
	Net investment in finance lease - in Pakistan	12.3	933,348	1,234,836
	Ijarah financing	12.4	46,643	45,683
	Bills discounted and purchased (excluding government treasury bills)			
	- Payable in Pakistan		1,034,749	445,695
	- Payable outside Pakistan		131,020	260,200
			1,165,769	705,895
	Advances - gross		35,245,477	35,520,314
	Provision against non-performing loans and advances			
	- Specific provision	12.5	(5,845,737)	(5,290,696)
	- General provision	12.6	(13,066)	(20,234)
		12.7	(5,858,803)	(5,310,930)
	Advances - net of provisions		29,386,674	30,209,384
12.1	**Particulars of advances (Gross)**			
12.1.1	In local currency		35,114,457	35,260,114
	In foreign currencies		131,020	260,200
			35,245,477	35,520,314
12.1.2	Short-term (upto one year)		26,977,422	29,361,180
	Long-term (over one year)		8,268,055	6,159,134
			35,245,477	35,520,314
12.2	**Include following islamic financing facilities given by KASB Modaraba:**			
	Murabaha finance	12.2.1	554,715	338,336
	Modaraba finance		84,523	34,699
	Musharaka finance		81,265	47,699
	Diminishing musharaka finance	12.2.2	283,796	232,129
			1,004,299	652,863
12.2.1	**Murabaha finance**			
	Murabaha receivables - gross		688,332	413,086
	Less: unearned income		(133,617)	(74,750)
			554,715	338,336
12.2.2	**Diminishing musharaka finance**			
	Diminishing musharaka receivable-gross		346,704	300,988
	Less: unearned income		(62,908)	(68,859)
			283,796	232,129

12.3 Net investment in finance lease

	2011				2010			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000)							
Lease rentals receivable	662,821	221,061	-	883,882	759,204	430,579	-	1,189,783
Residual value	84,216	77,252	-	161,468	98,143	114,319	-	212,462
Minimum lease payments	747,037	298,313	-	1,045,350	857,347	544,898	-	1,402,245
Finance charges for future periods	(87,573)	(24,429)	-	(112,002)	(112,132)	(55,277)	-	(167,409)
Present value of minimum lease payments	659,464	273,884	-	933,348	745,215	489,621	-	1,234,836

12.4 Ijarah financing

	2011			
	Plant & Machinery	Motor vehicles	Computers and accessories	Total
	(Rupees in '000)			
As at 31 December 2010				
Cost	46,868	29,758	710	77,336
Accumulated depreciation	(19,543)	(11,878)	(232)	(31,653)
Net book value	27,325	17,880	478	45,683
Additions during the year - at cost	25,729	2,382	242	28,353
Disposals during the year				
Cost	-	(3,775)	-	(3,775)
Accumulated depreciation	-	1,668	-	1,668
	-	(2,107)	-	(2,107)
Depreciation charge for the year	(17,058)	(7,999)	(229)	(25,286)
As at 31 December 2011				
Cost	72,597	28,365	952	101,914
Accumulated depreciation	(36,601)	(18,209)	(461)	(55,271)
Net book value	35,996	10,156	491	46,643

	2010			
	Plant & Machinery	Motor vehicles	Computers and accessories	Total
	(Rupees in '000)			
As at 31 December 2009				
Cost	46,868	46,114	738	93,720
Accumulated depreciation	(7,362)	(7,738)	(63)	(15,163)
Net book value	39,506	38,376	675	78,557
Additions during the year - at cost	-	449	-	449
Disposals during the year				
Cost	-	(16,805)	(28)	(16,833)
Accumulated depreciation	-	7,529	25	7,554
	-	(9,276)	(3)	(9,279)
Depreciation charge for the year	(12,181)	(11,669)	(194)	(24,044)
As at 31 December 2010				
Cost	46,868	29,758	710	77,336
Accumulated depreciation	(19,543)	(11,878)	(232)	(31,653)
Net book value	27,325	17,880	478	45,683

12.5 Particulars of non-performing loans and advances

Advances include Rs 12,138.602 million (31 December 2010: Rs. 9,617.879 million) which have been placed under non-performing status as detailed below:

Category of classification	2011				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	1,163,134	-	1,163,134	45,615	45,615
Doubtful	2,145,281	-	2,145,281	635,662	635,662
Loss	8,830,187	-	8,830,187	5,164,460	5,164,460
	12,138,602	-	12,138,602	5,845,737	5,845,737

Category of classification	2010				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	941,780	-	941,780	129,645	129,645
Doubtful	2,190,455	-	2,190,455	723,618	723,618
Loss	6,485,644	-	6,485,644	4,437,433	4,437,433
	9,617,879	-	9,617,879	5,290,696	5,290,696

12.6 General provision has been determined at the rate of 1.5% on fully secured regular portfolio of consumer loans and 5% on unsecured regular portfolio of consumer loans in accordance with the requirements of the Prudential Regulations.

12.7 Particulars of provision against non-performing advances

	Note	2011 Specific	2011 General	2011 Total	2010 Specific	2010 General	2010 Total
		(Rupees in '000)					
Opening balance		5,290,696	20,234	5,310,930	4,105,928	32,322	4,138,250
Charge for the period		1,222,634	-	1,222,634	1,797,509	-	1,797,509
Reversals		(632,702)	(7,168)	(639,870)	(605,409)	(12,088)	(617,497)
Net charge		589,932	(7,168)	582,764	1,192,100	(12,088)	1,180,012
Transfers		188	-	188	-	-	-
Amounts written off	12.8	(35,079)	-	(35,079)	(7,332)	-	(7,332)
Closing balance		5,845,737	13,066	5,858,803	5,290,696	20,234	5,310,930

12.7.1 In terms of SBP directives, the Holding Company has availed relaxation in respect of provisioning against non-performing advances of certain borrowers aggregating to Rs. 1,911.356 million (2010: Rs.1,636.79 million). Had the provision been made as per the requirements of Prudential Regulations, the provision against non-performing advances and loss before taxation for the year would have been higher by Rs. 1,066.696 million (2010: Rs. 495.102 million).

12.7.2 The above provision against non-performing advances has been computed after considering the benefit of Forced Sale Value (FSV) of collaterals amounting to Rs. 2,672.294 million (2010: Rs. 1,259.37 million). The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders.

During the year, the SBP has amended the Prudential Regulations for classification and provisioning against non-performing advances with respect to the eligible collaterals and securities held against non-performing advances with effect from 30 September 2011. As per the revised regulation, the Holding Company is allowed to take the benefit of FSV of the pledged stocks, plant and machinery under charge and mortgaged residential, commercial and industrial properties held as collateral as under:

Mortgaged residential, commercial, and industrial properties (land and building only)	75% for first year 60% for second year 45% for third year 30% for fourth year 20% for fifth year
Plant & machinery under charge	30% for first year 20% for second year 10% for third year
Pledged stock	40% for three years

Previously, the Holding Company was allowed to take the benefit of FSV of the pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against non-performing advances to the extent of 40 percent for computing provisioning requirements. This change in provisioning methodology has been applied prospectively with effect from 30 September 2011, which has resulted in decrease in provision against non-performing financing and loss before taxation for the year of Rs. 463.640 million.

12.7.3 Particulars of provision against non-performing loans and advances

	2011		2010	
	Specific	General	Specific	General
	(Rupees in '000)			
In local currency	5,845,737	13,066	5,290,696	20,234
In foreign currencies	-	-	-	-
	5,845,737	13,066	5,290,696	20,234

		Note	2011	2010
			(Rupees in '000)	
12.8	**Particulars of write-offs**			
12.8.1	Against provisions		35,079	7,332
	Directly charged to the profit and loss account		7,987	21,505
			43,066	28,837
12.8.2	Write-offs of Rs 500,000/- and above	12.8.3	37,623	22,961
	Write-offs of below Rs 500,000/-		5,443	5,876
			43,066	28,837

12.8.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended 31 December 2010 is given in Annexure - I to these consolidated financial statements. However, the write-off of loans does not affect the Group's right to recover the outstanding loans from these customers.

12.9 Particulars of loans and advances to executives, directors, associated companies, etc.

	2011	2010
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons		
Balance at beginning of the year	801,337	800,006
Loans granted during the year	176,835	308,836
Repayments during the year	(198,255)	(307,505)
Balance at end of the year	779,917	801,337
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	388	251,555
Adjustment during the year	-	(250,000)
Loans granted during the year	-	-
Repayments during the year	(388)	(1,167)
Balance at end of the year	-	388
Debts due by associates and other related parties		
Balance at beginning of the year	129,645	90,000
Loans granted during the year	242,783	285,681
Repayments during the year	(173,745)	(246,036)
Balance at end of the year	198,683	129,645

		Note	2011	2010
			(Rupees in '000)	
13.	**OPERATING FIXED ASSETS**			
	Capital work-in-progress	13.1	1,186,172	1,280,303
	Property and equipments	13.2	2,537,297	2,552,546
	Intangible assets	13.3	643,045	708,929
			4,366,514	4,541,778
13.1	**Capital work-in-progress**			
	Civil works		14,460	21,713
	Equipment		-	1,443
	Advances to suppliers and contractors		11,738	8,237
	Advance for acquiring properties			
	Office premises	13.1.1	1,096,903	721,903
	Land		-	466,360
			1,096,903	1,188,263
	Computer software		63,071	60,647
			1,186,172	1,280,303

13.1.1 Includes advance payment made by the Holding Company amounting to Rs. 721.903 million for the purchase of 4 floors in KASB Altitude against the aggregate purchase price of Rs. 947 million. The KASB Altitude is being developed/constructed by KASB Developers (Private) Limited (KDPL) and was expected to be completed in January 2012. However, due to the suspension of the development/construction work at certain intervals during the previous years, the project is still under construction. As per an independent valuer report, the value of construction work completed as of 12 July 2011 on the project amounted to Rs. 2,223.627 million. The Holding Company intends to re-negotiate the terms of the agreement with KDPL and has received a consent for creation of its charge on the property being developed.

13.2 Property and equipment

	COST / REVALUATION							DEPRECIATION						BOOK VALUE	
	As at 1 January 2011	Revaluation	Reversal of accumulated depreciation	Additions	Deletions	Reclassifications	As at 31 December 2011	As at 1 January 2011	Adjustments	Charge for the year	Deletions	Reclassifications	As at 31 December 2011	As at 31 December 2011	Rate of depreciation (%)
	(Rupees in '000)														
Owned															
Freehold land	254,182	13,619	-	-	(18,000)	-	249,801	-	-	-	-	-	-	249,801	-
Leasehold land	166,804	7,728	-	-	(35,000)	-	139,532	-	-	-	-	-	-	139,532	-
Buildings and leasehold improvements	1,704,158	168,179	(157,922)	88,257	(20,780)	-	1,781,892	236,422	(157,922)	80,971	(3,897)	-	155,574	1,626,318	5
Furniture and fixtures	244,600	-	-	5,744	(6,692)	9	243,661	97,514	-	21,196	(3,116)	7	115,601	128,060	10
Motor vehicles	272,788	-	-	44,157	(80,924)	-	236,021	82,255	-	35,100	(30,789)	-	86,566	149,455	20
Electrical, office and computer equipment	1,015,793	-	-	52,006	(7,837)	6,422	1,066,384	694,017	-	133,530	(6,611)	3,950	824,886	241,498	20-33.33
	3,658,325	189,526	(157,922)	190,164	(169,233)	6,431	3,717,291	1,110,208	(157,922)	270,797	(44,413)	3,957	1,182,627	2,534,664	
Leased															
Motor vehicles	2,433	-	-	-	-	-	2,433	2,295	-	365	-	-	2,660	(227)	20
Electrical, office and computer equipment	7,153	-	-	-	-	-	7,153	2,862	-	1,431	-	-	4,293	2,860	20-33.33
	9,586	-	-	-	-	-	9,586	5,157	-	1,796	-	-	6,953	2,633	
2011	3,667,911	189,526	(157,922)	190,164	(169,233)	6,431	3,726,877	1,115,365	(157,922)	272,593	(44,413)	3,957	1,189,580	2,537,297	-

	COST / REVALUATION							DEPRECIATION						BOOK VALUE	
	As at 1 January 2010	Revalua-tion	Reversal of accumulated depreciation	Additions	Deletions	Reclassi-fications	As at 31 December 2010	As at 1 January 2010	Adjustments	Charge for the year	Deletions	Reclassi-fications	As at 31 December 2010	As at 31 December 2010	Rate of depreciation (%)
	----------(Rupees in '000)----------														
Owned															
Freehold land	236,036	-	-	38,546	(20,400)	-	254,182	-	-	-	-	-	-	254,182	-
Leasehold land	165,126	-	-	5,350	(3,672)	-	166,804	-	-	-	-	-	-	166,804	-
Buildings and leasehold improvements	1,661,456	-	-	72,188	-	(29,486)	1,704,158	167,439	-	83,277	(394)	(13,900)	236,422	1,467,736	5
Furniture and fixtures	197,288	-	-	24,638	(1,873)	24,547	244,600	60,201	-	20,817	(645)	17,141	97,514	147,086	10
Motor vehicles	266,040	-	-	73,152	(68,219)	1,815	272,788	65,281	-	38,728	(20,972)	(782)	82,255	190,533	20
Electrical, office and computer equipment	879,729	-	-	151,819	(7,347)	(8,408)	1,015,793	568,227	-	144,832	(3,124)	(15,918)	694,017	321,776	20-33.33
	3,405,675	-	-	365,693	(101,511)	(11,532)	3,658,325	861,148	-	287,654	(25,135)	(13,459)	1,110,208	2,548,117	
Leased															
Motor vehicles	4,248	-	-	-	-	(1,815)	2,433	1,111	-	402	-	782	2,295	138	20
Electrical, office and computer equipment	7,153	-	-	-	-	-	7,153	1,431	-	1,431	-	-	2,862	4,291	20-33.33
	11,401	-	-	-	-	(1,815)	9,586	2,542	-	1,833	-	782	5,157	4,429	
2010	3,417,076	-	-	365,693	(101,511)	(13,347)	3,667,911	863,690	-	289,487	(25,135)	(12,677)	1,115,365	2,552,546	

		2011	2010
		(Rupees in '000)	
13.2.1	Carrying amount of temporarily idle properties	77,452	132,120
13.2.2	Cost of fully depreciated assets still in use	335,277	219,098

13.2.3 Details of disposals of property and equipment having original cost or book value exceeding one million rupees or two hundred and fifty thousand rupees respectively is as follows:

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	(Rupees in '000)				
Land and Building	48,015	46,330	33,000	Tender	Nawaz Aslam
Land and Building	20,000	19,842	17,000	Tender	Anwar Munawar
Land and Building	2,656	824	3,878	Tender	Faiza Kamran
Equipment	1,010	671	334	Auction	Ali Autos
Furniture and fixtures	500	371	83	Terms of employment	Adnan Haider
Furniture and fixtures	500	346	142	Terms of employment	Ehsan Fazil
Furniture and fixtures	750	663	450	Terms of employment	Sheikh Muhammad Moeen
Motor vehicle	529	317	324	Terms of employment	Javed Iqbal
Motor vehicle	529	298	370	Terms of employment	Babar Rafique
Motor vehicle	529	298	304	Terms of employment	Sohail Anwar
Motor vehicle	529	298	298	Terms of employment	Noman Arshad
Motor vehicle	529	291	304	Terms of employment	Adeel Ishaq
Motor vehicle	529	284	284	Terms of employment	Rehan Aziz
Motor vehicle	529	278	278	Terms of employment	Syed Saim Hassan
Motor vehicle	529	278	291	Terms of employment	Samra Afzal
Motor vehicle	529	271	278	Terms of employment	M Nawaz Memon
Motor vehicle	529	278	278	Terms of employment	Shirley D Souza
Motor vehicle	529	265	271	Terms of employment	Shehryar Safdar
Motor vehicle	529	251	278	Terms of employment	Umar Akhtar Naqvi
Motor vehicle	529	251	251	Terms of employment	Syed Muhammad Raza
Motor vehicle	529	251	304	Terms of employment	Muhammad Ali
Motor vehicle	555	202	202	Terms of employment	Ahmed Junaid Nasir
Motor vehicle	560	205	205	Terms of employment	Farah Marwat
Motor vehicle	590	391	509	Terms of employment	Mian Azad Chaudary
Motor vehicle	590	369	472	Terms of employment	Erfan Saeed
Motor vehicle	590	354	354	Terms of employment	Shabbir Ansari
Motor vehicle	590	354	354	Terms of employment	Habib Ur Rehman
Motor vehicle	590	260	283	Terms of employment	Ali Imam
Motor vehicle	590	325	325	Terms of employment	Hasnain Ahmed
Motor vehicle	620	326	326	Terms of employment	Waqar Ghaffoor
Motor vehicle	642	490	530	Terms of employment	Abdul Qadir
Motor vehicle	642	465	473	Terms of employment	Muhammad Nadeem
Motor vehicle	642	449	457	Terms of employment	Muhammad Waseem
Motor vehicle	642	433	441	Terms of employment	Fatima Adnan
Motor vehicle	652	546	595	Terms of employment	Faisal Qureshi
Motor vehicle	655	385	393	Terms of employment	Javed Mohsin Butt
Motor vehicle	660	388	388	Terms of employment	Nazir Ahmed
Motor vehicle	662	579	637	Terms of employment	A Wajid
Motor vehicle	667	584	592	Terms of employment	Fazal Ghafoor
Motor vehicle	667	567	625	Terms of employment	Tariq Nawaz
Motor vehicle	679	560	560	Terms of employment	Wahid Noor
Motor vehicle	685	565	565	Terms of employment	Muhammad Khan Leghari
Motor vehicle	710	462	488	Terms of employment	Tughril Afridi
Motor vehicle	879	209	209	Terms of employment	Ghazanfar Ali
Motor vehicle	881	474	507	Terms of employment	Ali Mohammad Khan
Motor vehicle	888	510	521	Terms of employment	Adnan Zafar Dada
Motor vehicle	888	521	521	Terms of employment	Noman Iqbal
Motor vehicle	888	499	499	Terms of employment	Naveed Baz Khan
Motor vehicle	936	337	337	Terms of employment	Atif Aziz Ahmed
Motor vehicle	988	655	692	Terms of employment	Mudassar Aslam
Motor vehicle	988	593	593	Terms of employment	Aftab Manzoor
Motor vehicle	988	605	605	Terms of employment	Omer Saeed
Motor vehicle	988	568	655	Terms of employment	Erfan Ahmed Mian
Motor vehicle	995	535	547	Terms of employment	Imtiaz Ahmed
Motor vehicle	1,000	600	600	Terms of employment	Mehboob Afridi
Motor vehicle	1,000	563	613	Terms of employment	Saulat Qadri
Motor vehicle	1,090	559	559	Terms of employment	Naeem Khan
Motor vehicle	1,094	616	630	Terms of employment	Adnan Zafar Dada
Motor vehicle	1,100	536	536	Terms of employment	Ehsan Fazil
Motor vehicle	1,202	977	1,067	Terms of employment	Muhammad Ilyas
Motor vehicle	1,209	846	846	Terms of employment	Yasir Siddiqui
Motor vehicle	1,259	1,023	1,023	Terms of employment	Muhammad Sabir
Motor vehicle	1,263	1,200	1,231	Terms of employment	Abdul Rehman
Motor vehicle	1,270	1,080	1,095	Terms of employment	Altaf Hassan Khan
Motor vehicle	1,312	836	836	Terms of employment	Arbab Zarak

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	(Rupees in '000)				
Motor vehicle	1,319	890	907	Terms of employment	Fasal Pingal
Motor vehicle	1,319	874	874	Terms of employment	Syed Aqeel Ahmed
Motor vehicle	1,329	1,013	1,030	Terms of employment	Masood Karim Shaikh
Motor vehicle	1,354	1,049	1,100	Terms of employment	Hamayun Babar
Motor vehicle	1,354	999	999	Terms of employment	Sheikh Muhammad Moeen
Motor vehicle	1,354	965	1,049	Terms of employment	Iqbal Haroon
Motor vehicle	1,359	1,189	1,206	Terms of employment	Masood Karim Shaikh
Motor vehicle	1,384	1,142	1,159	Terms of employment	Shahabuddin Qureshi
Motor vehicle	1,384	1,107	1,142	Terms of employment	Tehmina Ali
Motor vehicle	1,389	972	990	Terms of employment	Fahim Ahmed Siddiqui
Motor vehicle	1,409	740	727	Terms of employment	Khalid Mahmood Salim
Motor vehicle	1,419	1,295	1,313	Terms of employment	Kamran Ali Khan
Motor vehicle	1,450	1,378	1,396	Terms of employment	Farrukh Raza
Motor vehicle	1,561	761	761	Terms of employment	Shamim Naik
Motor vehicle	1,800	1,305	1,305	Terms of employment	Sheikh Muhammad Moeen
Motor vehicle	1,859	1,092	1,162	Terms of employment	Munir Saleem
Motor vehicle	2,810	567	567	Terms of employment	Munir Salim
Motor vehicle	590	325	580	Insurance Claim	Insurance Claim
Motor vehicle	1,461	1,370	1,440	Insurance Claim	Insurance Claim
Motor vehicle	1,426	1,312	1,390	Auction	Waseem Ahmed
Motor vehicle	800	692	681	Auction	M. Rahim
Motor vehicle	1,079	216	770	Auction	Ahmed Jan under sale auction
	149,032	117,810	106,044		

13.2.4 In accordance with the Holding Company's accounting policy, the land and buildings have been revalued during the year. The revaluation was carried out by an independent valuer, Maricon Consultants (Private) Limited on the basis of professional assessment of present market values and resulted in a surplus of Rs. 189.526 million over the book value of the respective properties as at the year end.

Had there been no revaluation, the net book value of land and buildings would have been lower by:

	2011	2010
	(Rupees in '000)	
Land	62,503	41,156
Buildings	733,537	603,162
	796,040	644,318

13.3 Intangible assets

	COST				AMORTISATION				BOOK VALUE	
	As at 1 January 2011	Additions	Reclassif-ications	As at 31 December 2011	As at 1 January 2011	Amortisation	Reclassif-ications	As at 31 December 2011	As at 31 December 2011	Rate of amortisation (%)
	(Rupees in '000)									
Computer software	210,231	21,484	3,500	235,215	144,468	49,733	3,169	197,370	37,845	33.33 & 20
Customer list	30,735	-	-	30,735	9,559	3,073	-	12,632	18,103	10
Foreign affiliate relationship (note15.3.1)	438,190	-	-	438,190	-	37,971	-	37,971	400,219	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	89,353	-	-	89,353	-	note 13.3.1
Membership cards of KSE and NCEL	73,250	-	-	73,250	11,250	-	-	11,250	62,000	indefinite useful life
Rooms at KSE	37,500	-	-	37,500	7,500	-	-	7,500	30,000	indefinite useful life
Booths at KSE	3,000	-	-	3,000	500	-	-	500	2,500	indefinite useful life
Management rights (note 1.2)	28,513	-	17,283	45,796	-	-	-	-	45,796	indefinite useful life
Brands	22,084	-	-	22,084	-	-	-	-	22,084	indefinite useful life
Customer relationships	63,929	-	-	63,929	28,412	14,205	-	42,617	21,312	22.22
Research intangibles	3,186	-	-	3,186	-	-	-	-	3,186	indefinite useful life
Total	999,971	21,484	20,783	1,042,238	291,042	104,982	3,169	399,193	643,045	

	COST				AMORTISATION				BOOK VALUE	
	As at 1 January 2010	Additions	Reclassif-ications	As at 31 December 2010	As at 1 January 2010	Amortisation	Reclassif-ications	As at 31 December 2010	As at 31 December 2010	Rate of amortisation (%)
	(Rupees in '000)									
Computer software	170,050	26,834	13,347	210,231	87,474	44,317	12,677	144,468	65,763	33.33 & 20
Customer list	30,735	-	-	30,735	6,484	3,075	-	9,559	21,176	10
Foreign affiliate relationship	438,190	-	-	438,190	-	-	-	-	438,190	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	22,338	67,015	-	89,353	-	-
Membership cards of KSE and NCEL	73,250	-	-	73,250	11,250	-	-	11,250	62,000	indefinite useful life
Rooms at KSE	37,500	-	-	37,500	7,500	-	-	7,500	30,000	indefinite useful life
Booths at KSE	3,000	-	-	3,000	500	-	-	500	2,500	indefinite useful life
Management rights	28,513	-	-	28,513	-	-	-	-	28,513	indefinite useful life
Brands	22,084	-	-	22,084	-	-	-	-	22,084	indefinite useful life
Customer relationships	63,929	-	-	63,929	14,206	14,206	-	28,412	35,517	22.22
Research intangibles	3,186	-	-	3,186	-				3,186	indefinite useful life
Total	959,790	26,834	13,347	999,971	149,752	128,613	12,677	291,042	708,929	

		Note	2011	2010
			(Rupees in '000)	
13.3.1	Cost of fully amortised assets still in use		53,610	35,147

14. DEFERRED TAX ASSETS - NET

	Note	2011	2010 Restated (Note 44)
Deductible temporary differences arising in respect of:			
Carry forward tax losses	14.2	3,202,228	2,703,256
Provision against non-performing loans and advances		1,554,244	1,443,159
Impairment of goodwill		86,898	69,671
Provision for diminution in the value of investments		82,610	56,645
Deficit on revaluation of available for sale investments		12,716	30,667
Provision for gratuity		34,542	38,749
Provision for compensated absences		2,037	2,262
Minimum tax		2,132	2,139
Others		7,311	6,747
		4,984,718	4,353,295
Taxable temporary differences arising in respect of:			
Surplus on revaluation of fixed assets		(211,483)	(221,403)
Accelerated tax depreciation		(131,643)	(149,495)
Fair value adjustments on amalgamation		(692,682)	(625,048)
Net investment in finance leases		(85,227)	(104,878)
Liabilities against assets subject to finance lease		(942)	(1,339)
Others		-	-
		(1,121,977)	(1,102,163)
	14.1	3,862,741	3,251,132

14.1 The above deferred tax asset has been recognised in these consolidated financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. The estimates of future taxable profits are based on financial projections of the Group for the next five years. The projections involve certain key assumptions underlying the estimation of future taxable profits estimated including injection of fresh equity in the form of issuance of right shares and issue of a subordinated debt. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio, deposit composition, interest rates, growth of deposits and advances, investment returns, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset. The management believes that it is probable that the Group will be able to achieve the profits projected in the financial projections and consequently the deferred tax asset will be fully realised in future years.

14.2 As of 31 December 2011, the Group has accumulated tax losses of Rs. 10,501.657 million (2010: Rs. 7,723.588 million). The deferred tax on such losses works out to Rs. 3,675.580 million, however the Group has recognised deferred tax asset on such losses to the extent of Rs. 3,202.228 million in line with the financial projections as referred to in note 14.1 above.

	Note	2011	2010
		(Rupees in '000)	
15. OTHER ASSETS			(Restated Note 44)
Mark-up / return / interest accrued in local currency		954,767	1,168,719
Advances, deposits and prepayments		235,456	288,901
Taxation (payments less provisions)		81,144	61,175
Stationery and stamps in hand		10,435	10,855
Non-banking assets acquired in satisfaction of claims	15.1	810,625	1,061,666
Branch adjustment account		818	2,721
Trade debts	15.2	234,294	386,234
Goodwill - net of impairment	15.3	1,022,583	1,249,716
Receivable against sale of securities		-	4,336
Dividend receivable		75	574
Assets held for sale		86,490	-
Commission receivable		81,228	17,709
Unrealised gain on forward foreign exchange contracts		-	18,726
Lease rental receivable		22,752	19,676
Others		85,536	21,137
		3,626,203	4,312,145
Provision held against other assets		(15,936)	(5,373)
Other assets - net of provision		3,610,267	4,306,772

15.1 Represent commercial and residential properties acquired by the Holding Company in satisfaction of borrowers liabilities. The market value of these assets as per the latest valuation carried out by independent valuer amounted to Rs. 1,025.252 million (2010: Rs. 1,542.646 million).

15.2 Trade debts

	Note	2011	2010
Considered good		196,420	385,104
Considered doubtful		187,223	130,947
		383,643	516,051
Less: Provision for doubtful trade debts	15.2.1	(149,349)	(129,817)
Closing balance		234,294	386,234

15.2.1 Reconciliation of provision against trade debts

	2011	2010
Opening balance	129,817	416,417
Written off during the year	-	(110,020)
Provision for the year	20,519	32,852
Reversal of provision during the year	(987)	(209,432)
	19,532	(176,580)
Closing balance	149,349	129,817

15.3 Goodwill

	2011	2010 (Restated Note 44)
Goodwill recognised on acquisition of:		
International Housing Finance Limited	35,362	35,362
KASB Capital Limited and its subsidiaries	2,077,658	2,077,658
	2,113,020	2,113,020
Less: accumulated impairment of goodwill	(1,090,437)	(863,304)
	1,022,583	1,249,716

15.3.1 During the year, the management has carried out annual impairment tests in respect of goodwill and intangible assets having indefinite useful lives as required by IAS - 36 "Impairments of Assets". Goodwill and foreign affiliate relationship (note 13.3) were allocated to the Investment Banking Group, a CGU. Based on the impairment testing, the management estimated that an additional provision of Rs. 227.113 million was required in respect of goodwill, which accordingly, has been made in the consolidated financial statements.

The recoverable amount of the CGU has been determined using discounted cash flow methodology, covering cash flow projections for a period of 5 years, using a pre-tax discount rate of 24% per annum. Management believes that the assumptions used in estimating the future performance of the CGU are consistent with past performance, market position, deals in hand and anticipated market conditions. The growth rate used to extrapolate the cash flows beyond the five year period is 7%.

The calculation of value in use is most sensitive to the following assumptions :

Discount rate

Discount rate reflects management estimates of the rate of return of the CGU and is calculated using Capital Asset Pricing Model.

Terminal growth rate

Terminal growth rate is based on long term nominal growth of the economy from published data and management estimates.

Key business assumptions

These assumptions underlying the projected cash flows of the CGU are based on the industry and economic data to assess the overall current and projected economic scenario, anticipated transaction activity, market position of the unit and relationship with the foreign affiliates and transaction mandates going forward in addition to deals in hand thereby increasing revenues while maintaining margins.

			2011	2010
			(Rupees in '000)	
16.	**BILLS PAYABLE**			
	In Pakistan		891,579	541,041
17.	**BORROWINGS**			
	In Pakistan		3,330,119	6,608,626
	Outside Pakistan		1,277,086	28,019
			4,607,205	6,636,645
17.1	**Particulars of borrowings with respect to currencies**			
	In local currency		3,330,119	6,608,626
	In foreign currencies		1,277,086	28,019
			4,607,205	6,636,645
17.2	**Details of borrowings secured / unsecured**			
	Secured			
	Borrowing from the State Bank of Pakistan			
	- under export refinance scheme	17.2.1	2,966,352	3,665,636
	- Long term financing for export oriented projects	17.2.2	71,227	124,896
	- Long term financing for imported and locally manufactured plant and machinery	17.2.3	87,410	370,628
			3,124,989	4,161,160
	Repurchase agreement borrowings		-	980,276
	Borrowings from banks and financial institutions	17.2.4	205,130	567,190
			3,330,119	5,708,626
	Unsecured			
	FCY borrowings	17.2.5	697,151	-
	Call money borrowings		-	900,000
	Overdrawn nostro accounts		579,935	28,019
			1,277,086	928,019
			4,607,205	6,636,645

17.2.1 These carry mark-up rate of 10% (2010: 7.5% to 9.0%) per annum with maturities upto June 2012.

17.2.2 These carry mark-up rate of 5% (2010: 5%) per annum with maturities upto July 2013.

17.2.3 These carry markup rates ranging from 6.5% to 7.2% (2010: 6.5% to 9.5%) per annum with maturities upto December 2014.

17.2.4 These carry mark-up rates ranging from 1.5% to 6.69% (2010: 1.5% to 8.3%) per annum with maturities upto September 2013.

17.2.5 These carry mark-up rate of 1.25% (2010: Nil) per annum with maturities upto May 2012.

.

	2011	2010
	(Rupees in '000)	
18. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	21,124,548	23,584,498
Savings deposits	17,981,429	13,962,193
Certificates of Musharaka	791,370	558,910
Current accounts - Non-remunerative	21,183,006	6,763,439
Margin deposits - Non-remunerative	561,696	383,388
	61,642,049	45,252,428
Financial Institutions		
Remunerative deposits	333,874	1,424,774
Non-remunerative deposits	17,681	17,473
	351,555	1,442,247
	61,993,604	46,694,675

18.1 Particulars of deposits

	2011	2010
In local currency	45,905,027	45,372,078
In foreign currencies	16,088,577	1,322,597
	61,993,604	46,694,675

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011			2010		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	(Rupees in '000)					
Not later than one year	1,510	-	1,510	692	32	660
Later than one year and not later than five years	-	-	-	1,510	-	1,510
	1,510	-	1,510	2,202	32	2,170

The Group has entered into various lease agreements with leasing companies for the lease of equipment and vehicles. Monthly lease rentals include financial charges ranging between 16.76% to 17.77% (2010: 15.23% to 16.24%) per annum. The Group has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

	Note	2011	2010
		(Rupees in '000)	
20. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		711,657	763,558
Mark-up / return / interest payable in foreign currencies		2,340	1,230
Advance against leases		550	-
Advance from customers		389	589
Accrued expenses		211,540	119,716
Security deposit against leases		178,041	226,114
Security deposit		343	552
Provision for compensated absences	20.1	5,820	6,464
Provision for gratuity	36	99,344	111,154
Taxation (payments less provisions)		-	-
Unclaimed dividends		2,523	1,952
Unclaimed commission income		34,528	12,666
Unrealised loss on forward foreign exchange contracts		68,940	-
Withholding tax payable		12,960	14,907
Federal Excise Duty payable		5,650	4,402
Trade creditors		477,699	452,098
Others		357,664	273,888
		2,169,988	1,989,290

20.1 Represents provision for compensated absences made in respect of the liability of the Holding Company towards leaves accumulated by its employees as at December 2005. No further provision is made pursuant to the decision of the management to discontinue this benefit from that date.

21. SHARE CAPITAL

Authorised capital

2011	2010		Note	2011	2010
(Number of shares)				(Rupees in '000)	
2,500,000,000	2,500,000,000	Ordinary shares of Rs. 10/- each		25,000,000	25,000,000

Issued, subscribed and paid-up capital

2011	2010		Note	2011	2010
		Ordinary shares of Rs. 10/- each			
1,263,642,172	263,642,172	Issued for cash	21.1	12,636,422	2,636,422
207,809,549	207,809,549	Issued as bonus shares		2,078,095	2,078,095
518,141,783	518,141,783	Issued on amalgamations for consideration other than cash	21.2	5,181,418	5,181,418
(38,731,842)	(38,731,842)	Cancelled shares		(387,318)	(387,318)
1,950,861,662	950,861,662			19,508,617	9,508,617

21.1 During the year, the Holding Company has issued 1,000 million shares of face value of Rs. 10/- per share at a discounted subscription price of Rs. 3/- per share.

21.2 Represents shares issued on amalgamations as follows:

	2011	2010
	(Rupees in '000)	
International Housing Finance Limited	585,000	585,000
KASB & Company	890,019	890,019
KASB Capital Limited	3,617,975	3,617,975
KASB Leasing	88,349	88,349
Network Leasing Corporation Limited	74	74
	5,181,417	5,181,417

21.3 As of 31 December 2011, ordinary shares of Rs. 10/- each were held by the parent company, associated company and other related parties of the Holding Company as under:

		2011	2010
		(Number of Shares)	
Parent Company		1,166,807,649	-
Associated companies		19,858,649	19,858,649
Other related parties		464,603,330	454,752,629

	Note	2011	2010
		(Rupees in '000)	
22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Operating fixed assets	22.1	584,557	422,915
Available for sale investments	22.2	(19,171)	(70,934)
Share of surplus of associates classified as available for sale accounted for by the equity method	11.13	22,273	126,917
		587,659	478,898
22.1 Operating fixed assets			
Balance at the beginning of the year		644,318	695,693
Surplus during the year upon revaluation of land and buildings	13.2	189,526	-
Transferred to accumulated loss in respect of incremental depreciation charged during the year		(37,804)	(51,375)
		796,040	644,318
Related deferred tax liability			
Balance at the beginning of the year		221,403	235,437
Surplus during the year upon revaluation of land and buildings		3,589	-
Transferred to accumulated loss in respect of incremental depreciation charged during the year		(13,509)	(14,034)
		211,483	221,403
		584,557	422,915
22.2 Available for sale investments			
Federal Government Securities		(23,342)	(63,413)
Ordinary shares of listed companies		5,773	2,889
Listed Term Finance Certificates		(14,318)	(14,341)
Units of open ended mutual funds		-	(26,736)
		(31,887)	(101,601)
Related deferred tax asset		12,716	30,667
		(19,171)	(70,934)
23. CONTINGENCIES AND COMMITMENTS			
23.1 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:			
Government		8,089,482	9,044,031
Others		1,960,594	1,250,296
		10,050,076	10,294,327
23.2 Trade-related contingent liabilities			
Letters of credit		8,684,795	2,867,131
Acceptances		2,803,140	1,657,589
		11,487,935	4,524,720

23.3 Taxation

(i) The income tax returns of the Group have been filed and tax assessments have been made by the tax authorities upto and including the tax year 2011.

For tax years 2003 and 2004, the Commissioner Income Tax Appeals (CIT Appeals) has passed appellate orders on account of certain disallowances in respect of income from carry over transactions, provision against non performing advances, bad debts and certain other items having an aggregate tax impact of Rs. 33.748 million (2010: Rs. 33.748 million). The Holding Company has preferred appeal before Income Tax Appellate Tribunal (ITAT) against the above referred orders of the CIT Appeals.

For tax years 2005 to 2009, the assessments of the Holding Company have been amended by the Taxation Officer by disallowing certain expenses / deductions including income from carry over transactions, provision for non performing advances, concessional loans to employees, amortisation of goodwill and impairment of investments having an aggregate tax impact of Rs. 757.487 million (2010: 785.953 million). The Holding Company has preferred appeals before the CIT Appeals against the above referred amendments of the Taxation Officer.

Income tax assessments of IHFL (amalgamated into the Holding Company during the year ended 31 December 2007) for tax years 2005 and 2006 have also been amended by the Taxation Officer by disallowing certain deductions including income from carry over transactions, gain on sale of investments, provision for doubtful debts and certain other items having an aggregate tax impact of Rs. 25.881 million (2010: Rs. 35.974 million). The Holding Company has preferred appeals before the CIT Appeals and ITAT for tax year 2005 and 2006 respectively against the above referred disallowances.

In the month of June 2011, KFL received a show cause notice from Deputy Commissioner Inland Revenue (DCIR) stating that Federal Excise Duty (FED) on the fund management fee for the tax periods 2007-2008, 2008-2009, 2009-2010 and 2010-2011 amounting to Rs. 26.101 million has not been paid. In this regard, certain Asset Management Companies (AMC's) filed a petition in the Honourable High Court of Sindh arguing that FED is not applicable on fund management fee. The Honorable High Court of Sindh in its order dated 30 June 2011 disposed off the petition by directing the AMC's to submit the explanation on this matter to the respective tax officer who after considering the explanation and contention of the AMC's on this matter shall pass an order giving findings on all the points raised by the AMC's. The AMC's may, if aggrieved, file an appeal against the said order of the relevant tax officer before the Commissioner Inland Revenue and the Income Tax Appellate Tribunal as per the procedures prescribed under the said order of Honorable High Court of Sindh.

Subsequent to the year end, CAMPL is also served a notice in February 2012 by the DCIR for non-payment of FED on the fund management fee for the tax periods 2007-2008, 2008-2009, 2009-2010 and 2010-2011 amounting to Rs.16.991 million. The Mutual Fund Association of Pakistan (MUFAP) has obtained a legal opinion on the above matter. Based on the legal advice obtained by MUFAP and also by the tax advisors of KFL, KFL is confident that the above matter will be decided favourably and hence, no provision against any liability which may arise in this respect has been made in these consolidated financial statements.

The aggregate financial impact of the above matters works out to be Rs. 860.207 million (2010: Rs. 819.701 million). The management, based on the opinion of its tax advisor, expects a favourable outcome of the above tax matters, however, as a matter of prudence, tax impact to the extent of Rs. 513,396 million (2010: Rs. 554.435 million) has been recognised in these consolidated financial statements by reducing the related deferred tax asset.

(ii) The income tax returns of the Holding Company for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2011.

For tax years 2003, 2004 and 2005 the income tax authorities of AJK region has passed appellate orders by adding interest on surplus funds transferred to head office, resulting in an additional tax demand of Rs. 11.172 million (2010: Rs. 11.172 million). The Holding Company has filed reference with the Azad Kashmir High Court against such additions for tax years 2003 and 2004. For tax year 2005, the Holding Company's appeal is pending before the Commissioner Income Tax (Appeals) - AJK.

The management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and consequently no additional provision has been considered necessary in these financial statements.

23.4 Commitments in respect of commodity futures / forward exchange contracts

	2011	2010
	(Rupees in '000)	
Purchase	11,445,273	3,550,272
Sale	6,541,997	2,454,438
23.5 Commitments for the acquisition of operating fixed assets	270,067	275,029

23.5.1 Includes Rs. 226.121 million committed to KDPL (as more fully explained in note 13.1.1 to the consolidated financial statements).

23.6 Commitment to extend credits

The Holding Company makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

24. DERIVATIVE FINANCIAL INSTRUMENTS

The Holding Company deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Holding Company's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities". These products are offered to the Holding Company's customers to protect from unfavourable movements in foreign currencies. The Holding Company hedges such exposures in the inter-bank foreign exchange market.

	2011	2010
	(Rupees in '000)	
25. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
Customers	3,370,681	3,972,257
Financial Institutions	6,180	52,755
	3,376,861	4,025,012
On investments :		
Available for sale securities	1,188,481	899,363
Held to maturity securities	59,853	61,838
Held for trading	-	20,432
	1,248,334	981,633
On deposits with financial institutions	32,636	26,903
On securities purchased under resale agreements	51,092	124,247
On call money lending	-	771
On listed equity securities purchased under resale agreements	2,965	-
	4,711,888	5,158,566
26. MARK-UP/ RETURN / INTEREST EXPENSED		
Deposits	4,417,957	4,471,884
Borrowing from the SBP	351,454	309,864
Securities sold under repurchase agreements	175,416	151,419
Call borrowings	157,519	130,502
Other Borrowings	2,759	5,046
Long term borrowings	64,063	71,642
Amortisation of premium on securities	27,240	28,785
	5,196,408	5,169,142
27. GAIN ON SALE / REDEMPTION OF SECURITIES		
Federal Government securities	162,705	9
Term finance certificates	-	375
Open-end mutual funds	(28,977)	12,839
Ordinary shares of listed companies	(14,579)	139,154
	119,149	152,377
28. OTHER INCOME		
Rent on property	4,806	6,279
Gain on disposal of fixed assets	-	7,972
Gain on acquisition	20,317	-
Revenue from rendering technology services	28,644	23,357
Locker rent	4,842	12,478
Processing fee and cheque return charges	12,411	13,147
Others	55,901	45,959
	126,921	109,192

29. ADMINISTRATIVE EXPENSES

	Note	2011	2010
		(Rupees in '000)	
Salaries, allowances and other benefits		1,236,952	1,290,856
Charge in respect of defined benefit gratuity scheme		12,371	34,042
Contribution to defined contribution plan		34,903	42,380
Rent, taxes, insurance and electricity		456,501	435,179
Legal and professional charges		63,889	146,870
Communication charges		159,651	123,253
Repairs and maintenance		115,785	127,378
Finance charge on lease obligations		34	509
Stationery and printing		45,019	44,541
Advertisement and publicity		82,946	69,207
Depreciation		272,593	289,505
Amortisation		104,982	128,613
Auditors' remuneration	29.1	13,228	15,454
Vehicle running expenses		7,774	9,147
Brokerage and commission		7,151	13,787
Security charges		61,003	63,587
Fee and subscription		62,382	71,318
Entertainment		16,660	18,693
Travelling expenses		20,894	34,443
Donations	29.2	1,480	3,819
Others		29,067	26,458
		2,805,265	2,989,039

29.1 Auditors' remuneration

	2011	2010
Audit fee	4,046	3,577
Fee for half yearly review	1,085	1,265
Special certifications and sundry services	7,735	9,140
Out-of-pocket expenses	362	1,472
	13,228	15,454

29.2 None of the directors or their spouses had any interest in the donees. The details of the donations paid in excess of Rs. 100,000/- during the year are as under:

	2011	2010
KASB Foundation (Flood Relief)	1,410	2,432
Peking University Education Foundation	-	686
SIF PAF Base Faisal (Flood Relief)	-	500
	1,410	3,618

30. OTHER CHARGES

	2011	2010
Impairment on goodwill	227,134	201,712
Penalties imposed by the SBP	47,855	925
Loss on sale of fixed assets - net	13,552	-
Others	2,071	2,484
	290,612	205,121

31. TAXATION

	2011	2010
For the year		
- Current	9,228	9,058
- Deferred	(635,717)	(768,897)
	(626,489)	(759,839)
For the prior years		
- Current	4,568	-
- Deferred	-	-
	(621,921)	(759,839)

	Note	2011	2010
		(Rupees in '000)	
32. BASIC AND DILUTED LOSS PER SHARE			
Loss for the year after taxation attributable to equity holders of the Holding Company		(2,509,621)	(2,741,315)
		Number of shares	
Weighted average number of ordinary shares		1,002,916,457	950,861,662
		(Rupees)	
Basic and diluted loss per share		(2.50)	(2.88)
33. CASH AND CASH EQUIVALENTS		(Rupees in '000)	
Cash and balances with treasury banks	8	4,822,751	3,272,624
Balances with other banks	9	10,930,425	360,306
Overdrawn nostro accounts	17.2	(579,935)	(28,019)
		15,173,241	3,604,911
34. STAFF STRENGTH		Number of employees	
Permanent		1,288	1,367
Temporary / on contractual basis		63	101
Group's own staff strength at the end of the year		1,351	1,468
Outsourced		447	528
Total staff strength		1,798	1,996

35. DEFINED CONTRIBUTION PLAN

The general description of the defined contribution plan is included in note 5.16

36. DEFINED BENEFIT SCHEME

The Group operates approved unfunded gratuity scheme for all its permanent employees. Latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2011 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	Holding Company		Subsidiary	
	2011	2010	2011	2010
	%			
Discount rate	12.5	14	14	14
Expected rate of salary increase - short term	8	14	12	13
Expected rate of salary increase - long term	12.5	14	12	13
	(Rupees in '000)			
36.1 Movement in liability				
Opening balance	110,710	91,018	420	258
Charge for the year	12,371	33,880	233	162
Payments made during the year	(24,390)	(14,188)	-	-
Closing balance	98,691	110,710	653	420
36.2 Charge for the year				
Current service cost	37,423	24,270	238	124
Interest cost	13,792	12,743	54	38
Actuarial loss recognised	(38,844)	(3,133)	(59)	-
	12,371	33,880	233	162

36.3 Movement in present value of defined benefit obligations

	Holding Company		Subsidiary	
	2011	2010	2011	2010
	(Rupees in '000)			
Opening balance	110,710	91,018	420	258
Current service cost	37,423	24,270	238	124
Interest cost	13,792	12,743	54	38
Benefits paid	(24,390)	(14,188)	-	-
Actuarial loss recognised	(38,844)	(3,133)	(59)	-
Closing balance	98,691	110,710	653	420

36.4 Historical information

	2011	2010	2009	2008	2007
	(Rupees in '000)				
Present value of obligations	99,344	111,130	91,276	74,706	40,115

36.5 Based on actuarial advice, the management estimates that the charge to defined benefit scheme for the year ending 31 December 2012 would be Rs. 39.193 million.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES OF THE GROUP

The aggregate amounts charged in the consolidated financial statements for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Group are as follows:

	President / Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Managerial remuneration	12,118	13,067	11,600	3,867	365,845	415,542
Contribution to defined contribution plan	1,062	1,121	966	322	23,241	23,297
Contribution to defined benefit scheme	-	1,508	623	391	18,305	25,381
Rent and house maintenance	3,635	3,920	3,480	1,160	113,579	89,287
Utilities	1,212	1,307	1,160	387	34,666	29,169
Medical	1,212	1,307	1,160	387	31,553	28,273
Others	1,228	1,251	780	260	77,409	54,639
	20,467	23,481	19,769	6,774	664,598	665,588
Number of persons	1	1	1	1	404	373

37.1 Fee paid to non-executive directors for attending the Board meetings amounts to Rs. 11,730 million (2010: Rs. 9,270 million).

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2011 Book value	2011 Fair value	2010 Book value	2010 Fair value
	(Rupees in '000)			
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	4,822,751	4,822,751	3,272,624	3,272,624
Balances with other banks	10,930,425	10,930,425	360,306	360,306
Lendings to financial institutions	622,683	622,683	40,000	40,000
Investments	15,588,703	15,531,438	12,019,099	11,927,566
Advances	29,386,674	29,386,674	30,209,384	30,209,384
Other assets	3,610,267	3,610,267	1,184,685	1,184,685
	64,961,503	64,904,238	47,086,098	46,994,565
Liabilities				
Bills payable	891,579	891,579	541,041	541,041
Borrowings	4,607,205	4,607,205	6,636,645	6,636,645
Deposits and other accounts	61,993,604	61,993,604	46,694,675	46,694,675
Other liabilities	2,169,988	2,169,988	1,073,151	1,073,151
	69,662,376	69,662,376	54,945,512	54,945,512
Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	11,445,273	11,416,569	3,550,272	3,524,878
Forward sale of foreign exchange contracts	6,541,997	6,576,421	2,454,438	2,388,023

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value of financial instruments is based on:

Federal Government Securities	PKRV rates
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break-up value as per latest available audited financial statements.

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Holding Company's accounting policies as stated in note 6.1 and 6.2.

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities of the Group is as follows:

2011	Asset Management	Commercial banking	Retail banking	Trading and sales / brokerage	Corporate finance	Total
	(Rupees in '000)					
Total income	70,774	5,009,208	6,402	391,397	189,157	5,666,938
Total expenses	(77,369)	(7,816,351)	(150,346)	(461,340)	(307,758)	(8,813,164)
Loss before taxation	(6,595)	(2,807,143)	(143,944)	(69,943)	(118,601)	(3,146,226)
Segment assets (gross)	1,283,849	50,154,654	1,855,706	24,678,785	1,368,560	79,341,554
Segment non-performing loans	-	11,950,291	186,958	-	1,353	12,138,602
Segment provision required	-	5,245,954	627,818	276,057	967	6,150,796
Segment liabilities	169,901	66,593,050	542,224	1,503,429	855,282	69,663,886
	%					
Segment return on assets	(1)	(6)	(8)	-	(9)	
Segment cost of funds	-	10	13	11	13	

2010	Asset Management	Commercial banking	Retail banking	Trading and sales / brokerage	Corporate finance	Total
	(Rupees in '000)					
Total income	59,137	4,186,344	370,197	1,098,628	415,761	6,130,067
Total expenses	(120,225)	(6,925,478)	(746,972)	(1,188,926)	(309,993)	(9,291,594)
Loss before taxation	(61,088)	(2,739,134)	(376,775)	(90,298)	105,768	(3,161,527)
Segment assets (gross)	1,193,145	50,973,445	3,570,929	8,260,941	467,703	64,466,163
Segment non-performing loans	-	8,323,292	1,294,252	-	-	9,617,544
Segment provision required	-	5,174,549	456,932	274,320	-	5,905,801
Segment liabilities	128,607	51,886,238	304,863	2,626,265	917,848	55,863,821
	%					
Segment return on assets	(5)	(5)	(11)	(1)	23	
Segment cost of funds	-	13	9	13	16	

40. TRUST ACTIVITIES

The Group is not engaged in any trust activities.

41. RELATED PARTY TRANSACTIONS

The management has determined related party relationships in accordance with approved accounting standards which include associates, retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Transaction with related parties, other than those disclosed elsewhere in consolidated financial statements, are summarized as follows:

	Associates	Directors	Key management personnel	Other related parties	Total
	2011				
	(Rupees in '000)				
Deposits					
As at 01 January 2011	220,673	2,968	35,906	216,992	476,539
Received during the year	10,202,831	126,283	218,465	541,552	11,089,131
Withdrawals during the year	(10,214,740)	(124,438)	(236,417)	(578,991)	(11,154,586)
As at 31 December 2011	208,764	4,813	17,954	179,553	411,084
Loan and advances					
As at 01 January 2011	129,645	15,580	49,497	388	195,110
Disbursements during the year	242,783	10,000	27,541	-	280,324
Repayments during the year	(173,745)	(4,876)	(21,678)	(388)	(200,687)
As at 31 December 2011	198,683	20,704	55,360	-	274,747
Other assets	29,385	-	4,059	-	33,444
Other liabilities	111,890	2	3,633	7	115,532
Contingencies and commitments	350,010	-	-	2,249	352,259
	2010				
Deposits					
As at 01 January 2010	177,498	2,567	20,987	215,216	416,268
Adjustment during the year	9,783	-	-	(51,170)	(41,387)
Received during the year	2,888,409	185,605	333,351	346,252	3,753,617
Withdrawals during the year	(2,855,017)	(185,204)	(318,432)	(293,306)	(3,651,959)
As at 31 December 2010	220,673	2,968	35,906	216,992	476,539
Loan and advances					
As at 01 January 2010	90,000	19,123	62,148	251,555	422,826
Adjustment during the year	-	-	-	(250,000)	(250,000)
Disbursements during the year	285,681	4,959	31,025	-	321,665
Repayments during the year	(246,036)	(8,502)	(43,676)	(1,167)	(299,381)
As at 31 December 2010	129,645	15,580	49,497	388	195,110
Other assets	4,319	-	-	22	4,341
Other liabilities	3,045	21	252	-	3,318
Contingencies and commitments	404,001	-	-	2,141	406,142

	For the year ended 31 December 2011				
	Associates	Directors	Key management personnel	Other related parties	Total
	(Rupees in '000)				
Mark-up earned	26,371	1,077	1,838	12	29,298
Mark-up expensed	76,149	12	1,529	20,397	98,087
Group Executive Services	10,670	-	-	-	10,670
Remuneration for services	35,084	22,286	191,036	-	248,406
Contribution to staff provident fund	-	-	-	32,662	32,662
Bonus Units Issued	8,888	-	-	-	8,888
Other Income	6,852	-	-	-	6,852
Mutual Fund Unit (Redeemed)	254,697	-	-	-	254,697
Mutual Fund Unit (Purchased)	87,318	-	-	-	87,318
Custody Service Charges	4	-	45	-	49
Load Income	823	-	-	-	823
Disposal of Fixed Assets	-	-	1,025	-	1,025
Loan Disbursement	-	-	3,548	-	3,548
Loan Repayment	-	-	3,573	-	3,573

	For the year ended 31 December 2010				
Mark-up earned	18,970	873	2,693	150	22,686
Mark-up expensed	18,758	45	1,507	21,474	41,784
Group Executive Services	57,991	-	-	-	57,991
Other administrative expenses	50,279	25,981	188,944	1,200	266,404
Contribution to staff provident fund	-	-	-	40,533	40,533
Bonus Units Issued	960	-	-	-	960
Other Income	20,665	-	-	5	20,670
Mutual Fund Unit (Redeemed)	53,977	-	-	-	53,977
Mutual Fund Unit (Purchased)	15,977	-	-	-	15,977
Custody Service Charges	-	-	108	-	108
Load Income	10,118	-	-	-	10,118
Disposal of Fixed Assets	-	-	2,216	-	2,216
Loan Disbursement	-	-	4,970	-	4,970
Loan Repayment	-	-	3,320	-	3,320
Investments during the year - net	58,000	-	-	-	58,000

42. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

42.1 Capital management

The primary objective of the Holding Company's capital management is to ensure that the Holding Company complies with all regulatory capital requirements and at the same time maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Basel II implementation is a vital initiative towards strengthening Holding Company's risk management. The Holding Company in line with the SBP guidelines has adopted the standardized approach for credit, market risks and basic indicator approach for operational risk.

The goals of managing capital of the Group are as follows:

-To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers.

-Maintain strong ratings and to protect the Group against unexpected events.

-Availability of adequate capital at a reasonable cost so as to enable the Group to expand and achieve low overall cost of capital with appropriate mix of capital elements.

The Holding Company has developed a capital management plan as part of its Internal Capital Adequacy Assessment Process (ICAAP). This plan documents the Holding Company's risk management structures, financial projections and its capital management plan for the next 5 years. The plan has been approved by the management and the Board and submitted to the SBP on bi-annual basis and is subject to periodic review.

42.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the Minimum Capital Requirement (MCR) for the Holding Company up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2011 is Rs. 8 billion. Further, the Holding Company is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Holding Company.

The paid up capital of the Holding Company (net of losses) as of 31 December 2011 amounted to Rs. 2,724.140 million while CAR at consolidated level is 1.18% as of that date. The management's actions and plans for meeting the required capital requirements are disclosed in note 1.3 to the cosolidated financial statements.

42.3 Capital structure

Tier I capital includes paid up capital, share premium, reserves and un-appropriated profit / accumulated losses, etc. after deductions for investment in subsidiaries (upto 50 percent) engaged in banking and financial activities, goodwill, intangibles and relaxation in provisions, if any.

Tier II capital, includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets). Revaluation reserves (up to a maximum of 45 percent of revaluation reserves gross of any deferred tax liability) after deduction of remaining 50 percent of investment in subsidiaries as mentioned above.

Tier III capital, consists of short term subordinated debt solely for the purpose of meeting a proportion of the capital requirement for market risks. The Holding Company currently does not have any Tier III capital.

		2011	2010
Tier I capital		(Rupees in '000)	
Share capital		19,508,617	9,508,617
Discount / premium on issue of right shares		(6,976,276)	23,724
Accumulated losses		(10,125,988)	(8,012,226)
Reserves		30,839	162,727
Non-controlling Interest		502,021	534,801
		2,939,213	2,217,643
Book value of:			
goodwill		(1,022,583)	(1,249,716)
intangibles		(706,116)	(769,118)
Other deductions:			
50% investments in associates	42.5	(455,719)	(522,750)
relaxation in provisions against non-performing loans and advances	12.7.1	-	(495,101)
		754,795	(819,042)
Tier II capital			
General provisions subject to 1.25% of total risk weighted assets		13,066	20,234
Revaluation reserve (upto 45%)		343,869	242,923
Less: other deductions:			
- 50% investments in associates	42.5	(455,719)	(522,750)
		(98,784)	(259,593)
Eligible Tier III capital		-	-
Total regulatory capital		656,011	(1,078,635)

42.4 The capital to risk weighted assets calculated in accordance with SBP's guidelines on capital adequacy is as follows:

	Capital requirements		Risk weighted assets	
	2011	**2010**	**2011**	**2010**
Credit risk	------------------------ (Rupees in '000) ------------------------			
Portfolios subject to standardized approach				
Claim on				
Corporate portfolio	2,051,108	2,232,292	20,511,083	22,322,923
Retail portfolio	72,078	142,484	720,780	1,424,839
Banks	229,263	22,497	2,292,626	224,968
Residential property	41,696	43,981	416,964	439,813
Past due loans	865,431	478,588	8,654,305	4,785,880
Investment in fixed assets	366,040	377,266	3,660,399	3,772,660
Other assets	922,684	788,935	9,226,839	7,889,350
	4,548,300	4,086,043	45,482,996	40,860,433
Off balance sheet				
Non market related	749,715	487,639	7,497,145	4,876,387
Market related	21,721	9,466	217,206	94,661
	771,435	497,105	7,714,351	4,971,048
	5,319,735	4,583,148	53,197,347	45,831,481
Market risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	92,708	29,587	1,158,850	369,839
Equity position risk	32,652	39,965	408,150	499,557
Foreign exchange risk	2,933	27,893	36,663	348,667
	128,293	97,445	1,603,663	1,218,063
Operational risk				
Capital requirement for operational risks	80,348	117,011	1,004,350	1,462,637
Total	5,528,376	4,797,604	55,805,360	48,512,181

Capital Adequacy Ratio

	2011	2010
Total eligible regulatory capital held	656,011	(1,078,635)
Total risk weighted assets	55,805,360	48,512,181
CAR	1.18%	-2.22%

42.5 The CAR calculation does not include the impact of deduction of investments in open ended mutual funds amounting to Rs 766.076 million (2010: Rs 927.145 million) based on the clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated 27 April 2009.

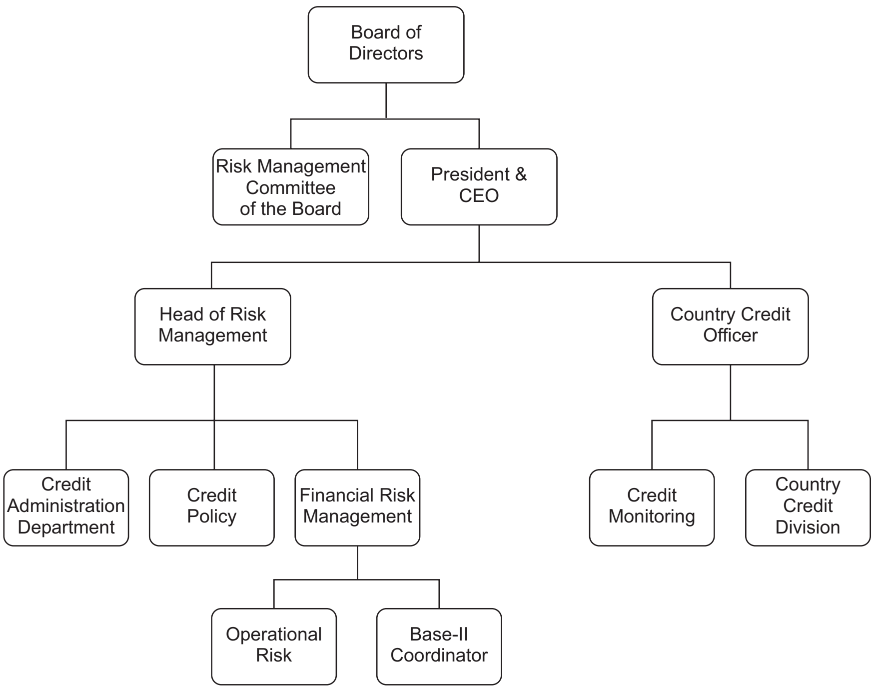
43. RISK MANAGEMENT

The Holding Company's business activities expose it to a wide variety of risks, which are inherent in virtually all aspects of its operations. The management's goal in managing these risks is to protect the Holding Company from an unacceptable level of earnings volatility while supporting and enabling business opportunities. This is done by ensuring that the risks arising from business activities and transactions provide an appropriate balance of return for the risk assumed and remain within the Holding Company's risk appetite. The Holding Company has implemented a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and guidelines, which involve the Holding Company's risk management professionals and business segments. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the Holding Company's risk appetite. The primary risks associated with the Holding Company are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Representations of risk are for a given period and the Holding Company's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the Holding Company including business process re-engineering and inventorying the risks and controls within the Holding Company's existing business and process units. All of these initiatives will have a direct impact on the risk management function within the Holding Company.

The Holding Company strives to continually enhance its risk management capabilities in view of changing business needs and market conditions. In this regard the risk management structure at the Holding Company has been reorganized with the formation of a Country Credits Division (CCD) responsible for evaluation and approval of all credit proposals. The Division is headed by a Country Credit Officer (CCO) who reports directly to the President. The Credit Monitoring function has also been placed under the CCO. credit administration, financial risk, credit policy and procedures, operational risk and Basel II functions continue to report to the Chief Risk Officer.



43.1.1 Credit risk

Credit risk is the risk of financial loss if a customer or counter party fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees, and from the Holding Company's holdings of debt securities. Among the risks the Holding Company is faced with credit risk accounts for the largest regulatory capital requirement.

The aims of credit risk management are principally as follows:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Holding Company's overall objectives.
- Working with business groups in keeping aggregate credit risk well within the Holding Company's risk taking capacity.
- Developing and maintaining credit approval authority structure.
- Approving major credits.
- Recommending approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Holding Company.
- Organising portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The credit portfolio, which includes Corporate and Commercial Banking (Middle Market and SME) loans are generally collateralised by cash equivalents, fixed and current assets including stocks, property plant and machinery and mortgages. Loans to individuals are typically secured by cash equivalents, residential mortgage and selected listed shares.

Credit risk organization and structure

Taking credit risk is central to the business therefore it has been ensured that business managers, in conjunction with risk managers, are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

Credit approval authorities and standardised procedures

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers linked to the internal risk rating of an obligor. Credit approval process, credit policy and procedure manual, credit bulletins and the enterprise wide risk policy have been approved by the Risk Management Committee (RMC) of the Board and includes:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action.

Quarterly reporting is made to the RMC of the Board of Directors on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

Credit risk portfolio management

The Holding Company seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved credit policy. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers and industry segments.

The credit portfolio is monitored through the Credit Risk Management Committee (CRMC) which includes senior business and risk managers. The major functions of this committee include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and ensure that the overall credit risk exposure of the Holding Company does not breach the pre-defined limits.
- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in light of the approved limits.

Risk rating

The Board has approved the Internal Credit Risk Rating Policy for the Corporate and Commercial Banking segments. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor.

The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information/assessment. It assigns grades from “1” to “7” under the performing category. ORRs ranging between “8” to “10” are assigned to classified obligors based upon an internal classification and remedial management process. The ORR model forms an integral part of the approval process that materially helps in decision making.

The risk rating of an obligor is initially performed by a Relationship Manager and reviewed by a responsible senior / Credit Officer who is normally the Regional Head. Risk rating is also reviewed by the CCO.

The credit limits delegations under the credit policy are based on a grid that is driven by the assigned risk rating. A Risk Rating System for the consumer portfolio is also being developed.

Mitigants

The following initiatives are used to mitigate credit risk:

(a) Credit principles and policy

To ensure consistency and standardisation across the Corporate and Commercial Banking Group, standard credit procedures and policies are implemented through the approved Credit Policy Manual. This ensures clear definition of responsibilities of the business, risks, credit administration and remedial departments and provides a basis for a disciplined environment.

(b) Counter party limits and credit scoring

The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

(c) Concentration risk

The credit policy provides limits for industry sector concentrations and through the regular meetings of CRMC on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral

One of the mitigants is the collateral held against the credit exposures. The credit policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the Group and giving the Group a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances. There is no legally enforceable netting agreement with the borrowers.

(e) Risk Acceptance Criteria (RAC)

RACs have been approved by the management and put in place as basic guiding rules for Corporate and Commercial Banking segments.

Special Assets Management (SAM)

The credit policy defines the classified credit process to be followed in order to establish a consistent approach to problem recognition, problem labelling, remedial action, loan loss provisioning and the initiation of credit write-offs. It defines clear responsibilities pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

The SAM portfolio is regularly reviewed by the CRMC and the RMC of the Board and all working plans, recoveries, waivers and write-offs are approved.

Credit concentration risk

The Holding Company manages limits and controls concentration of credit risk as identified, in particular to individual counter parties and groups, and to industries, where appropriate. Concentration of credit risk exists if clients are engaged in similar activities or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Holding Company sets limits on its credit exposure to counter party groups, by industry, product, and counter party, in line with SBP directions / guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Holding Company considers it appropriate to restrict credit risk concentration or areas of higher risk, or to control the rate of portfolio growth. As of 31 December 2011, the Holding Company has exceeded certain exposure limits due to shortfall in capital. The management believes that such limits will be regularised upon recapitalization of the Holding Company as per plan referred to in note 1.3 to the financial statements.

Risk Asset Review

The Risk Asset Review (RAR) Unit continuously monitors portfolios and process quality. It reports regularly to the RMC of the Board and senior management on all portfolios, maintains and analyses the Institution's records in adversely classified credits, and conducts periodic inspections. RAR reviews on-site and reports on every portfolio and credit process at least every twelve months.

43.1.2 Credit risk – General Disclosure Basel II Specific

The Holding Company has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on corporate portfolio 45.10%, claims on retail portfolio 1.58%, claims on banks 5.04%, claims on residential property 0.92%, past due loans 19.03%, investments in fixed assets 8.05% and all other assets 20.28%.

43.1.3 Credit Risk: Standardised Approach

The Holding Company uses unsolicited ratings from External Credit Assessment Institutions as approved by the SBP including JCR-VIS, PACRA and other foreign agencies wherever applicable.

Exposure	JCR-VIS	PACRA	Fitch & Moody's	Standard & Poor's
- Corporate	✓	✓	-	-
- Banks	✓	✓	✓	✓
- Sovereigns	-	-	✓	-
- SME's	-	-	-	-
- Securitizations	-	-	-	-

Credit exposure subject to Standardised Approach.

	2011		
Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	(Rupees in '000)		
0%	5,386,389	-	5,386,389
20%	11,860,786	230,632	11,630,154
35%	1,191,327	-	1,191,327
50%	2,395,902	500,000	1,895,902
75%	1,263,597	303,517	960,080
100%	31,673,875	676,482	30,997,393
150%	6,686,456	-	6,686,456
	60,458,332	1,710,631	58,747,701

	2010		
Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	(Rupees in '000)		
0%	3,943,575	-	3,943,575
20%	745,669	-	745,669
35%	1,256,608	-	1,256,608
50%	3,856,171	500,000	3,356,171
75%	2,130,606	246,440	1,884,166
100%	35,298,808	1,399,037	33,899,771
150%	2,120,998	-	2,120,998
	49,352,435	2,145,477	47,206,958

43.1.4 Credit risk: Disclosure on Credit Risk Mitigation (CRM) for Standardarised Approach -BASEL II Specific

The Holding Company has adopted simple approach to CRM under Basel II. Main types of collateral taken by the Holding Company are:

- Mortgage of residential, commercial and industrial property
- Equities and shares held
- Cash, deposits under lien and government securities

43.1.5 Segmental information

43.1.5.1 Segments by class of business

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	367,530	1.04	4,824,875	7.78	38,190	0.10
Automobile and transportation equipment	217,132	0.62	58,727	0.09	23,273	0.06
Cement	1,463,134	4.15	2,540	0.01	62,897	0.16
Chemical and Pharmaceuticals	1,750,572	4.97	1,673,565	2.70	1,407,432	3.54
Construction	2,106,114	5.98	714,483	1.15	2,510,936	6.31
Electronics and electrical appliances	1,270,830	3.61	43,231	0.07	298,319	0.75
Exports / Imports	1,263,169	3.58	161,372	0.26	94,269	0.24
Financial	1,464,668	4.16	334,245	0.54	22,789,885	57.27
Food and Beverages	1,619,068	4.59	330,257	0.53	-	-
Footwear and Leather garments	408,517	1.16	7,094	0.01	-	-
Individuals	5,171,933	14.67	20,589,341	33.21	-	-
Insurance	-	-	17,311	0.03	-	-
Manufacturing	-	-	876,968	1.41	-	-
Mining and Quarrying	-	-	85,602	0.14	-	-
Oil and gas	-	-	14,234,904	22.96	-	-
Power (electricity), Gas, Water, Sanitary	1,777,061	5.04	1,980,329	3.19	807,422	2.03
Production and transmission of energy	-	-	-	-	6,104,818	15.34
Public / Government	896,021	2.54	5,225,837	8.43	-	-
Services	1,044,473	2.96	4,235,141	6.83	847,439	2.13
Sugar	1,268,068	3.60	63,065	0.10	30,791	0.08
Textile	6,310,332	17.90	655,210	1.06	733,309	1.84
Transport, Storage and Communication	410,449	1.16	653,550	1.05	160,932	0.40
Wholesale and Retail Trade	1,912,799	5.43	2,770,118	4.47	22,519	0.06
Others	4,523,607	12.84	2,455,839	3.96	3,862,917	9.71
	35,245,477	100.00	61,993,604	100.00	39,795,348	100.00

Segments by class of business

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	474,085	1.33	1,810,131	3.88	-	-
Automobile and transportation equipment	164,601	0.46	948,345	2.03	-	-
Cement	1,522,646	4.29	-	-	458,752	2.17
Chemical and Pharmaceuticals	1,286,505	3.62	598,817	1.28	387,534	1.84
Construction	2,115,231	5.95	3,561,374	7.63	3,042,434	14.42
Electronics and electrical appliances	1,720,330	4.88	123,891	0.27	306,480	1.45
Exports / Imports	1,074,555	3.03	188,735	0.40	100,719	0.48
Financial	1,614,870	4.55	1,343,810	2.88	10,247,660	48.57
Food and Beverages	1,646,815	4.64	722,313	1.55	-	-
Footwear and Leather garments	460,776	1.30	78,138	0.17	-	-
Individuals	5,713,412	16.08	17,833,836	38.19	-	-
Insurance	-	-	18,687	0.04	-	-
Manufacturing	2,695,396	7.59	1,417,510	3.04	-	-
Mining and Quarrying	-	-	184,986	0.40	-	-
Oil and Gas	-	-	-	-	-	-
Power (electricity), Gas, Water, Sanitary	341,251	0.96	190,892	0.41	1,610,457	7.63
Production and transmission of energy	-	-	-	-	338,358	1.61
Public / Government	900,000	2.53	7,100,231	15.21	-	-
Services	1,274,999	3.59	4,809,808	10.30	1,004,115	4.76
Sugar	1,408,121	3.96	40,473	0.09	10	-
Textile	6,459,558	18.19	677,714	1.45	821,243	3.89
Transport, Storage and Communication	416,078	1.17	540,482	1.16	-	-
Wholesale and Retail Trade	1,819,687	5.12	3,470,326	7.41	-	-
Others	2,411,398	6.76	1,034,176	2.21	2,781,024	13.18
	35,520,314	100.00	46,694,675	100.00	21,098,786	100.00

43.1.5.2 Non-performing loans and advances and specific provision by class of business

	2011 Classified advances	2011 Specific provision held	2010 Classified advances	2010 Specific provision held
	----- (Rupees in '000) -----			
Automobile and Transportation equipment	108,239	103,586	108,239	104,191
Cement	908,188	402,292	904,885	455,999
Chemical and Pharmaceuticals	923	923	923	923
Construction	1,426,791	575,058	1,071,039	424,527
Electronics and electrical appliances	2,502	2,502	7,520	2,181
Exports / Imports	21,680	9,476	21,675	9,115
Financial	368,067	323,707	504,715	328,963
Food and Beverages	135,005	67,749	135,005	45,330
Footwear and Leather garments	2,475	2,475	2,475	2,475
Individuals	1,442,362	619,281	1,301,298	579,097
Power (electricity), Gas, Water, Sanitary	-		-	-
Services	68,365	25,870	49,826	26,253
Sugar	-		-	-
Textile	4,080,130	2,428,570	2,773,842	1,810,845
Transport, Storage and Communication	265,935	265,935	293,603	282,085
Wholesale / Retail Trade	227,483	182,814	985,611	391,626
Others	3,080,457	835,499	1,457,223	827,086
	12,138,602	5,845,737	9,617,879	5,290,696

43.1.5.3 Segments by sector

2011

	Advances (Gross) Rupees in '000	%	Deposits Rupees in '000	%	Contingencies and commitments Rupees in '000	%
	-----(Rupees in '000)-----					
Public / Government	896,021	2.54	5,225,837	8.43	-	-
Private	34,349,456	97.46	56,767,767	91.57	39,795,348	100.00
	35,245,477	100.00	61,993,604	100.00	39,795,348	100.00

2010

	Advances (Gross) Rupees in '000	%	Deposits Rupees in '000	%	Contingencies and commitments Rupees in '000	%
	-----(Rupees in '000)-----					
Public / Government	900,000	2.53	7,100,231	15.21	-	-
Private	34,620,314	97.47	39,594,444	84.79	21,098,786	100.00
	35,520,314	100.00	46,694,675	100.00	21,098,786	100.00

43.1.5.4 Non-performing loans and advances and specific provision by sector

	2011 Classified advances	2011 Specific provision held	2010 Classified advances	2010 Specific provision held
	----- (Rupees in '000) -----			
Public / Government	-	-	-	-
Private	12,138,602	5,845,737	9,617,879	5,290,696
	12,138,602	5,845,737	9,617,879	5,290,696

43.2 Market risk

Market risk is the risk of loss in market values of a given portfolio arising from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The Financial Risk Management (FRM) Department is responsible for developing the Holding Company's market risk policies and measurement techniques. The policies are approved by the Market Risk Policy Committee (MRPC) and the RMC of the Board.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

FRM unit performs all market risk management activities within the Holding Company. FRM unit is responsible for developing and reviewing market risk policies, strategies and processes. It has to ensure monitoring and implementation of market risk and other policies. Any deviations are escalated to the MRPC which comprises of senior management.

The scope of market risk management is as follows:

- To keep the market risk exposure within the Bank's risk appetite as assigned by the Board of Directors.

- All the market risk policies are approved by the RMC of the Board and implementation is done by the senior management through MRPC, Treasury and FRM unit.

- Various limits have been assigned on a portfolio basis.

The Holding Company uses the Standardised Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II.

Market risk comprises of foreign exchange risk, equity price risk and interest rate / yield risk.

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss resulting from changes in exchange rates. Foreign exchange risks is controlled and monitored through the limits approved by MRPC within the overall limits advised by the SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Holding Company and therefore the risk generated through foreign exchange activities is insignificant.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------------------- (Rupees in '000) -----------------------			
Pakistan rupee	60,603,696	52,295,883	(4,903,276)	3,404,537
United States dollar	1,972,922	1,258,836	(786,636)	(72,550)
Great Britain pound	120,516	231,994	113,333	1,855
Canadian dollar	3,798	3,675	-	123
Japanese yen	7,095,155	8,655,274	1,599,022	38,903
Euro	3,388,978	7,217,348	3,977,557	149,187
Other currencies	5,693	876	-	4,817
	73,190,758	69,663,886	-	3,526,872

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------------------- (Rupees in '000) -----------------------			
Pakistan rupee	57,711,613	54,511,975	(1,117,827)	2,081,811
United States dollar	580,859	910,986	880,417	550,290
Great Britain pound	70,754	195,847	126,542	1,449
Canadian dollar	-	132	-	(132)
Japanese yen	3,438	-	(3,677)	(239)
Euro	191,890	244,881	114,545	61,554
Other currencies	1,808	-	-	1,808
	58,560,362	55,863,821	-	2,696,541

(ii) Equity price risk

Equity price risk arises due to change in prices of stocks or levels of equity indices.

The Holding Company's equity and mutual fund exposure is managed with the objective to be in the SBP limits for overall investment and per script exposure. In addition, there are internal limits for trading position as well as stop loss limits, dealer limits and future contracts limits.

(iii) Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates.

The Assets and Liability Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Holding Company arising from fluctuation in the market interest rates and mismatch in maturity of financial assets and financial liabilities.

The Holding Company's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on contractual repricing or maturity dates.

Interest rate risk exposures of the Holding Company are controlled through dealer limits, counter-party exposure limits and instrument limits. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

Mismatch of interest rate sensitive assets and liabilities

The Group's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

2011

	Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk: Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	4,822,751	1,599,235	-	-	-	-	-	-	-	-	3,223,516
Balances with other banks	0.1% - 14.48%	10,930,425	3,711,216	-	-	-	-	-	-	-	-	7,219,209
Lending to financial institutions and others	6.53%	622,683	622,683	-	-	-	-	-	-	-	-	-
Investments	8% - 15.77%	15,588,703	27,142	899,212	1,266,469	7,767,844	650,436	259,099	470,407	507,225	-	3,740,869
Advances	13.61%	29,386,674	17,145,895	3,062,001	2,461,946	130,572	152,227	192,174	129,840	180,851	373,462	5,557,706
Other assets		954,842										954,842
		62,306,078	23,106,171	3,961,213	3,728,415	7,898,416	802,663	451,273	600,247	688,076	373,462	20,696,142
Liabilities												
Bills payable		891,579	-	-	-	-	-	-	-	-	-	891,579
Borrowings	12.28%	4,607,205	591,558	2,330,274	1,543,812	42,272	73,623	25,666	-	-	-	-
Deposits and other accounts	9.08%	61,993,604	4,647,159	7,194,955	3,183,309	6,803,100	97,300	54,115	980	-	-	40,012,686
Liabilities against assets subject	-	-	-	-	-	-	-	-	-	-	-	
to finance lease	12.05%	1,510	1,510	-	-	-	-	-	-	-	-	-
Other liabilities		1,104,128										1,104,128
		68,598,026	5,240,227	9,525,229	4,727,121	6,845,372	170,923	79,781	980	-	-	42,008,393
On-balance sheet gap		(6,291,948)	17,865,944	(5,564,016)	(998,706)	1,053,044	631,740	371,492	599,267	688,076	373,462	(21,312,251)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		11,445,273	3,029,750	4,036,280	4,379,243	-	-	-	-	-	-	-
Forward sale of foreign exchange		(6,541,997)	(2,917,440)	(2,021,000)	(1,603,557)	-	-	-	-	-	-	-
Off-balance sheet gap		4,903,276	112,310	2,015,280	2,775,686	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			17,978,254	(3,548,736)	1,776,980	1,053,044	631,740	371,492	599,267	688,076	373,462	(21,312,251)
Cumulative Yield / Interest Risk Sensitivity Gap			17,978,254	14,429,518	16,206,498	17,259,542	17,891,282	18,262,774	18,862,041	19,550,117	19,923,579	(1,388,672)

2010

	Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk: Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	3,272,624	192,740	-	-	-	-	-	-	-	-	3,079,884
Balances with other banks	1% - 16.28%	360,306	250,281	-	-	-	-	-	-	-	-	110,025
Lending to financial institutions and others	12.77%	40,000	40,000	-	-	-	-	-	-	-	-	-
Investments	12.91% - 17.02%	12,019,099	1,212,069	3,072,462	1,438,534	195,649	775,096	833,262	691,737	449,044	-	3,351,246
Advances	7.5% - 28%	30,209,384	17,366,838	3,832,514	2,949,432	(21,165)	437,907	111,019	502,945	165,641	431,467	4,432,786
Other assets	-	1,184,685	-	-	-	-	-	-	-	-	-	1,184,685
		47,086,098	19,061,928	6,904,976	4,387,966	174,484	1,213,003	944,281	1,194,682	614,685	431,467	12,158,626
Liabilities												
Bills payable	-	541,041	-	-	-	-	-	-	-	-	-	541,041
Borrowings	9.63%	6,636,645	1,697,456	3,061,574	1,042,923	267,844	328,906	167,110	70,832	-	-	-
Deposits and other accounts	9.59%	46,694,675	6,176,343	7,129,964	3,980,235	6,943,191	388,070	24,900	680	2,000	-	22,049,292
Liabilities against assets subject to finance lease	12.08%	2,170	-	508	152	-	-	1,510	-	-	-	-
Other liabilities		1,073,151	-	-	-	-	-	-	-	-	-	1,073,151
		54,947,682	7,873,799	10,192,046	5,023,310	7,211,035	716,976	193,520	71,512	2,000	-	23,663,484
On-balance sheet gap		(7,861,584)	11,188,129	(3,287,070)	(635,344)	(7,036,551)	496,027	750,761	1,123,170	612,685	431,467	(11,504,858)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		3,547,188	1,715,172	1,100,258	641,458	90,300	-	-	-	-	-	-
Forward sale of foreign exchange		(2,429,361)	(1,835,114)	(189,182)	(405,065)	-	-	-	-	-	-	-
Off-balance sheet gap		1,117,827	(119,942)	911,076	236,393	90,300	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			11,068,187	(2,375,994)	(398,951)	(6,946,251)	496,027	750,761	1,123,170	612,685	431,467	(11,504,858)
Cumulative Yield / Interest Risk Sensitivity Gap			11,068,187	8,692,193	8,293,242	1,346,991	1,843,018	2,593,779	3,716,949	4,329,634	4,761,101	(6,743,757)

43.3 Liquidity risk

43.3.1 Liquidity Risk Management

Liquidity risk is the risk that the Holding Company will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function. The Holding Company follows a comprehensive liquidity risk management policy duly reviewed and approved by the RMC of the Board.

The Holding Company's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchise. A centralised approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required. The framework entails careful monitoring and control of the daily liquidity position. A contingency funding plan is in place to ensure a systematic response in a crisis situation.

The following tools are being used in order to monitor the liquidity risk:

- Liquidity Gap Reports
- Stress Scenarios
- Various Liquidity Ratios
- Significant Funding Concentrations

43.3.2 Maturities of assets and liabilities

The table below summarises the maturity profile of the Holding Company's assets and liabilities. The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and also takes into account the effective maturities as indicated by the Holding Company's deposit retention history. Current and saving deposits are repayable on demand, however management has determined the maturity buckets, based on its judgment and experience. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	----Rupees in '000----									
Assets										
Cash and balances with treasury banks	4,822,751	4,822,751	-	-	-	-	-	-	-	-
Balances with other banks	10,930,425	10,930,425	-	-	-	-	-	-	-	-
Lending to financial institutions	622,683	622,683	-	-	-	-	-	-	-	-
Investments	15,588,703	576,585	899,214	1,226,507	7,942,745	569,301	259,099	1,427,728	1,333,401	1,354,123
Advances	29,386,674	8,486,975	5,550,464	4,117,824	2,963,355	6,033,506	450,583	995,028	301,401	487,538
Operating fixed assets	4,366,514	33,960	67,925	101,888	203,776	407,551	407,552	709,875	1,352,698	1,081,289
Deferred tax assets	3,862,741	-	-	-	772,548	772,548	772,548	1,545,096	-	-
Other assets	3,610,267	1,384,025	40,982	61,473	587,425	340,861	340,861	-	810,625	44,015
	73,190,758	26,857,404	6,558,585	5,507,692	12,469,849	8,123,767	2,230,643	4,677,727	3,798,125	2,966,965
Liabilities										
Bills payable	891,579	148,597	297,193	445,790	-	-	-	-	-	-
Borrowings	4,607,205	591,558	2,330,274	1,543,812	42,272	73,623	25,666	-	-	-
Deposits and other accounts	61,993,604	44,659,845	7,194,955	3,183,309	6,803,100	97,300	54,115	980	-	-
Liabilities against assets subject to	-	-	-	-	-	-	-	-	-	-
finance lease	1,510	1,510	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,169,988	1,107,194	784,505	5,258	40,247	50,763	80,494	101,527	-	-
	69,663,886	46,508,703	10,606,927	5,178,169	6,885,619	221,686	160,275	102,507	-	-
Net assets	3,526,872	(19,651,299)	(4,048,341)	329,524	5,584,230	7,902,080	2,070,368	4,575,220	3,798,125	2,966,965
Share capital	19,508,617									
Reserves	30,839									
Accumulated losses	(10,125,988)									
Share premium	(6,976,276)									
	2,437,192									
Non-controlling interest	502,021									
Surplus on revaluation of assets - net	587,659									
	3,526,872									

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	3,272,624	3,272,624	-	-	-	-	-	-	-	-
Balances with other banks	360,306	360,306	-	-	-	-	-	-	-	-
Lending to financial institutions	40,000	40,000	-	-	-	-	-	-	-	-
Investments	12,019,099	1,508,096	2,864,264	2,075,931	990,349	836,248	864,893	1,048,335	1,466,564	364,419
Advances	30,209,384	6,480,327	8,415,290	4,476,845	4,332,679	2,128,998	912,378	1,719,415	1,024,340	719,112
Operating fixed assets	4,541,778	37,423	74,844	112,266	224,531	449,062	449,062	761,682	1,351,619	1,081,289
Deferred tax assets	3,810,399	-	-	-	762,080	762,080	762,080	1,524,159	-	-
Other assets	4,306,772	1,659,439	49,959	74,939	583,610	416,572	416,572	-	1,061,666	44,015
	58,560,362	13,358,215	11,404,357	6,739,981	6,893,249	4,592,960	3,404,985	5,053,591	4,904,189	2,208,835
Liabilities										
Bills payable	541,041	541,041	-	-	-	-	-	-	-	-
Borrowings	6,636,645	1,697,456	3,061,574	1,042,923	267,844	328,906	167,110	70,832	-	-
Deposits and other accounts	46,694,675	28,225,635	7,129,964	3,980,235	6,943,191	388,070	24,900	680	2,000	-
Liabilities against assets subject to finance lease	2,170	-	508	152	-	-	1,510	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,989,290	1,060,551	590,336	5,881	49,539	61,301	99,079	122,603	-	-
	55,863,821	31,524,683	10,782,382	5,029,191	7,260,574	778,277	292,599	194,115	2,000	-
Net assets	2,696,541	(18,166,468)	621,975	1,710,790	(367,325)	3,814,683	3,112,386	4,859,476	4,902,189	2,208,835
Share capital	9,508,617									
Reserves	162,727									
Accumulated losses	(8,012,226)									
Share premium	23,724									
	1,682,842									
Non-controlling interest	534,801									
Surplus on revaluation of assets - net	478,898									
	2,696,541									

43.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Holding company has developed a comprehensive Operational Risk Policy with the assistance of an independent consultant that governs the setting up of an Operational Risk Management Framework at the Bank. The framework addresses all significant areas of Operational Risk Management including carrying out a Risk and Controls Self Assessment exercise (RCSA), identification and monitoring of Key Risk Indicators (KRIs), Operational Loss Data Management and Capital Calculation etc.

Internal controls are an essential features of risk reduction in operational risk management. The Holding Company has taken following initiatives for developing a framework of internal controls:

- The Holding Company is in the process of adopting the internationally accepted COSO Internal Control Framework and has devised a well-defined and comprehensive Internal Control Programme in line with SBP guidelines.

- Internal control policies and manuals have been approved by the Board of Directors.

- The Holding Company with the help of an independent consultant has developed IT Policies and Standard Framework that is aligned with the internationally recognized COBIT standards.

44. PRIOR YEAR ADJUSTMENT

During the year 2008, KASB Capital Limited (KCL) amalgamated with and into the Bank which resulted in acquisition of identifiable net assets of KCL of Rs. 6,028 million and recognition of goodwill amounting to Rs. 1,538 million by the Bank. In accordance with the requirements of IFRS-3 "Business Combinations", all acquired net assets were recognised at acquisition date fair values which included an equity investment in Evolvence Capital Limited (ECL) - an unlisted company incorporated in British Virgin Islands (note 11.7). The fair value of the said investment was determined on the basis of unaudited book value of net assets of ECL as at 31 December 2008. However, subsequently the Bank received audited financial statements of ECL for the year ended 31 March 2009 which revealed a significant difference in the net assets value that was used earlier for the purpose of recording the above investment in the consolidated financial statements for the year ended 31 December 2008.

Accordingly, in accordance with the requirements of IAS - 8 "Accounting Policies, Changes in Accounting Estimates And Errors", the Bank has adjusted the fair value of the above referred investment in these consolidated financial statements and consequently, the comparative figures in these consolidated financial statements have been restated. The effect of such restatement is summarized as follows:

	2010	2009
	(Rupees in '000)	
Increase in investments	840,441	840,441
Decrease in other assets		
- Goodwill	840,441	840,441
- Provision for impairment	(840,441)	(840,441)
	-	-
Decrease in deferred tax asset	559,267	559,267
Increase in net equity	281,174	281,174

45. GENERAL

45.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.

45.2 Figures have been rounded off to the nearest thousand rupees.

46. DATE OF AUTHORISATION

These consolidated financial statements were authorized for issue in the Board's meeting held on 3 April 2012.

President and Chief Executive Director Director Director

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSANDS RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2011

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	Mr. Tariq Ahmed Sheikh House No. 76/2, 13th Street, Khayaban-e-Badar, DHA, Karachi	Mr. Tariq Ahmed Sheikh 10910-3000000-5	Abdul Sattar Sheikh	14.703	0.757	0.001	15.461	2.773	4.064	0.297	7.134
2	M/s. Rizwan Departmental Store 99-C, Agro Square, Shadman Market, Lahore	Mr. Irfan Haider 35202-2966590-3 Mr. Rizwan Haider 35202-2966592-5	Mr. Ghulam Hussain Mr. Ghulam Hussain	53.500	3.450	-	56.950	23.500	3.450	-	26.950
3	M/s. Wasi Security (SMC-Pvt.) Ltd. Room No. 208-210, 2nd Floor, Lahore Stock Exchange Building, Lahore	Mr. Wasiullah Khan 35202-2471535-1	Naeem Ullah Khan	19.000	1.563	-	20.563	10.000	1.563	-	11.563
4	M/s. Construction Technique 7-C, Commercial Area, Muhammad Ali Housing Society, Karachi	Mr. Waseem Fatima 42301-3258718-0	Syed Qamar Abbas Jaffery	1.350	-	-	1.350	1.350	-	-	1.350
				88.553	**5.770**	**0.001**	**94.324**	**37.623**	**9.077**	**0.297**	**46.997**

Number of Share Holders	Shareholding From	Shareholding To	Total Shares Held
3,142	1	100	119,624
2,217	101	500	434,336
1,764	501	1,000	1,353,615
1,322	1,001	5,000	2,913,314
313	5,001	10,000	2,388,894
92	10,001	15,000	1,128,069
55	15,001	20,000	1,003,257
44	20,001	25,000	1,016,989
36	25,001	30,000	995,463
17	30,001	35,000	558,673
18	35,001	40,000	684,250
20	40,001	45,000	861,197
11	45,001	50,000	534,430
6	50,001	55,000	307,659
6	55,001	60,000	347,986
5	60,001	65,000	318,492
2	65,001	70,000	140,000
5	70,001	75,000	365,923
7	75,001	80,000	547,157
8	80,001	85,000	666,051
5	85,001	90,000	445,908
3	90,001	95,000	279,212
11	95,001	100,000	1,096,774
3	100,001	105,000	300,533
1	110,001	115,000	114,816
6	120,001	125,000	743,225
1	125,001	130,000	126,006
1	130,001	135,000	130,469
1	135,001	140,000	136,705
1	140,001	145,000	144,972
1	145,001	150,000	150,000
2	150,001	155,000	302,001
1	155,001	160,000	155,232
1	165,001	170,000	168,000
1	170,001	175,000	171,396
1	185,001	190,000	189,000
2	190,001	195,000	381,176
3	195,001	200,000	600,000
3	200,001	205,000	605,472
1	205,001	210,000	210,000
1	225,001	230,000	225,313
2	240,001	245,000	482,751
3	245,001	250,000	750,000
1	265,001	270,000	268,797
1	285,001	290,000	285,857
2	295,001	300,000	599,355
1	305,001	310,000	308,279
1	325,001	330,000	327,892

PATTERN OF SHAREHOLDING

Number of Share Holders	Shareholding From	Shareholding To	Total Shares Held
1	380,001	385,000	383,613
1	385,001	390,000	385,267
1	390,001	395,000	394,509
1	395,001	400,000	400,000
1	445,001	450,000	450,000
1	450,001	455,000	452,421
3	495,001	500,000	1,500,000
1	500,001	505,000	502,994
1	520,001	525,000	521,473
1	535,001	540,000	535,001
1	540,001	545,000	540,540
1	565,001	570,000	569,613
1	855,001	860,000	860,000
1	915,001	920,000	917,520
1	995,001	1,000,000	1,000,000
1	1,115,001	1,120,000	1,119,560
1	1,330,001	1,335,000	1,333,839
1	1,405,001	1,410,000	1,405,371
1	1,835,001	1,840,000	1,837,416
1	1,860,001	1,865,000	1,864,800
1	2,495,001	2,500,000	2,500,000
1	2,870,001	2,875,000	2,874,942
1	2,935,001	2,940,000	2,940,000
1	3,200,001	3,205,000	3,200,400
1	3,210,001	3,215,000	3,213,000
1	3,330,001	3,335,000	3,333,277
1	4,595,001	4,600,000	4,600,000
1	4,650,001	4,655,000	4,652,697
1	4,875,001	4,880,000	4,877,417
1	5,040,001	5,045,000	5,040,628
1	5,105,001	5,110,000	5,106,024
1	5,985,001	5,990,000	5,985,159
1	10,470,001	10,475,000	10,474,465
1	11,695,001	11,700,000	11,699,226
1	11,950,001	11,955,000	11,950,480
1	17,280,001	17,285,000	17,280,900
1	17,790,001	17,795,000	17,794,022
1	17,815,001	17,820,000	17,816,967
1	19,855,001	19,860,000	19,858,649
1	19,970,001	19,975,000	19,972,062
2	21,125,001	21,130,000	42,254,598
1	33,285,001	33,290,000	33,286,769
1	41,225,001	41,230,000	41,225,787
1	106,340,001	106,345,000	106,341,810
1	106,685,001	106,690,000	106,687,489
1	235,725,001	235,730,000	235,728,788
1	1,166,805,001	1,166,810,000	1,166,807,649
9,201			**1,950,861,662**

CATEGORIES OF SHAREHOLDERS

Categories of Share Holders	Number of Shares Held
INDIVIDUALS	80,604,754
INVESTMENT COMPANIES	741
JOINT STOCK COMPANIES	132,614,283
DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN	
SUO LANG DUO JI	500
IRSHAD ALI SHABAN ALI KASSIM	56,512
WASEEM HAQQIE	1,902
LEON SEYNAVE	1,902
SYED TARIQ HUSSAIN GILANI	500
MUNEER KAMAL	942
TARIQ MUHAMMAD ALI RANGOONWALA	6,269
SOHAILA KASSIM	35,910
EXECUTIVES	96,731
NIT / ICP	
NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	1,837,416
IDBP (ICP UNIT)	2,133
NATIONAL INVESTMENT TRUST LIMITED	46,366
INVESTMENT CORPORATION OF PAKISTAN	9
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
KASB SECURITIES LIMITED	19,858,649
KASB FINANCE (PRIVATE) LIMITED	1,166,807,649
NASIR ALI SHAH BUKHARI	383,296,385
AMBREEN BUKHARI	17,816,967
MUZAFFAR ALI SHAH BUKHARI	21,127,299
SYEDA MUBASHIRA BUKHARI	21,127,299
MAHMOOD ALI SHAH BUKHARI	21,127,299
PUBLIC SECTOR COMPANIES AND CORPORATIONS	-
BANKS, DFIs, NBFIs, INSURANCE COMPANIES MODARABAS AND MUTUAL FUNDS	9,742,938
FOREIGN INVESTORS	74,240,839
CO-OPERATIVE SOCIETIES	-
CHARITABLE TRUSTS	79
OTHERS	409,389

	Shareholders	Shareholding	Percentage
INDIVIDUALS	9,018	80,604,754	4.13%
INVESTMENT COMPANIES	3	741	0.00%
JOINT STOCK COMPANIES	86	132,614,283	6.80%
DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN	13	104,437	0.01%
EXECUTIVES	8	96,731	0.00%
NIT / ICP	4	1,885,924	0.10%
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	9	1,651,161,547	84.64%
PUBLIC SECTOR COMPANIES AND CORPORATIONS	-	-	0.00%
BANKS, DFIs, NBFIs, INSURANCE COMPANIES MODARABAS AND MUTUAL FUNDS	19	9,742,938	0.50%
FOREIGN INVESTORS	37	74,240,839	3.81%
CO-OPERATIVE SOCIETIES	-	-	0.00%
CHARITABLE TRUSTS	1	79	0.00%
OTHERS	3	409,389	0.02%
	9,201	**1,950,861,662**	**100.00%**

SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

	No. of Shares Held	Percentage
Nasir Ali Shah Bukhari	383,296,385	19.65%
KASB FINANCE (PRIVATE) LIMITED	1,166,807,649	59.81%
TOTAL	**1,550,104,034**	**79.46%**

KARACHI BRANCHES

Main Branch
Tel: (021) 32446005-10 / 32446772-77
Fax: (021) 32446781
UAN: 111 555 666

Jodia Bazar Branch
Tel: (021) 32521351-4
Fax: (021) 32521357
Cochinwala Branch (Sub Branch)
PABX No. (021) 32462703-5
FAX No. (021) 32467643

Korangi Branch
Tel: (021) 35078922-25
Fax (021) 35078926

Preedy Street Branch
PABX No (021) 32724121, 32724135, 32724178
Fax (021) 32725175
Electronic Market (Saddar) (Sub Branch)
PABX No. (021) 32700561-63
Fax No. (021) 32700567

DHA Shahbaz Branch
PABX No. (021) 35349154-7
Fax No.(021) 35349149
DHA Phase VI Branch (Sub Branch)
PABX (021) 35242734-37
FAX No. (021) 35242739
Defence Phase IV Branch (Sub Branch)
PABX (021) 35312961-4
Fax No. (021) 35312966

Garden Branch
PABX No. (021) 32292041-43
FAX No. (021) 32292046

Gulshan-e-Iqbal Branch
Tel: (021) 34981330-31
Fax: (021) 34981334
Gulshan Chowrangi Branch (Sub Branch)
PABX No. (021) 34832541-3
FAX No. (021) 34832548

New Challi Branch
PABX No. (021) 32601231-33
Fax No. (021) 32601337

Shaheed-e-Millat Road Branch
PABX No (021) 34145183-84-86
Fax No. (021) 34145187
Dohraji Branch (Sub Branch)
PABX No. (021) 34860180-2
Fax No. (021) 34860184
Khalid Bin Waleed Branch (Sub Branch)
PABX (021) 34302806-9
Fax No. (021) 34302813

SITE Branch
PABX No (021) 32550391-3
Fax (021) 32550395

Shahrah-e-Faisal Branch
Tel: (021) 34313236-38
Fax: (021) 34538638
Muhammad Ali Society Branch (Sub Branch)
PABX No. (021) 34306061-3
FAX No. (021) 34306066
Manzoor Colony Branch (Sub Branch)
PABX No. (021) 35392805-7
FAX No. (021) 35392810

Hyderi Branch
PABX (021) 36724280-3-4
Fax No. (021) 36724282
Nazimabad (Sub Branch)
PABX No. (021) 36611909-12-13
Fax (021) 36611909
F.B. Area Karimabad Branch (Sub Branch)
PABX No. (021) 36826728/31/35
FAX No. (021) 36826805

Karachi Stock Exchange Branch
Tel: (021) 32473560-63
Fax (021) 32473564

DHA Phase I Branch
PABX No. (021) 35314121-3
Fax No. (021) 35314127

Gulistan-e-Johar Branch
PABX No. 34029901-3
Fax No. 34029902

Malir City Branch
PABX No. (021) 34117381, 34110812 / 822
FAX No. (021) 34117452

Clifton Branch
PABX No.: (021) 35879207, 35879170, 35879215
Fax: (021) 35879134
Shireen Jinnah (Clifton) (Sub Branch)
PABX No. (021) 35305581-3
FAX No. (021) 35374579

LAHORE BRANCHES

Defence Branch
PABX No: (042) 35731811, 35740083
Fax: (042) 35722228
DHA-G Branch (Sub Branch)
PABX (042) 35690987-8
Fax No. (042) 35690986

Johar Town Branch
PABX (042) 35220813-5
Fax No. (042) 35220819

Baghbanpura Branch
PABX No. (042) 36820445-6
FAX No. (042) 36820447
Mughalpura Branch (Sub Branch)
PABX No. (042) 36524880-3
FAX No. (042) 36524887

Gulshan-e-Ravi Branch
PABX No. (042) 37415063-83-86
FAX No. (042) 37414892

Raiwind Road Branch
PABX No:(042) 35426923, 35437893
Fax (042) 35426926

Abbot Road Branch
PABX No: (042) 36305143-44
Fax: (042) 36305142
Mozang Branch (Sub Branch)
PABX No. (042) 36371254-6
Fax No. (042) 36371504
Shadman Town Branch (Sub Branch)
PABX No. (042) 37569488-9
Fax: (042) 37569487

Lahore Stock Exchange Branch
PABX No: (042) 36367794-97
Fax No : (042) 36280804

Peco Road Branch
PABX No:(042) 35144951-4
FAX No:(042) 35144955

Shah Alam Branch
PABX No: (042) 37656501, 37658221
FAX No:(042) 37658275

Allama Iqbal Town Branch
PABX (042) 35424951-3
Fax No. (042) 35436226
Wahdat Raod Branch (Sub Branch)
PABX (042) 35912863-4
Fax No. (042) 35912862

Circular Road Branch
PABX No: (042) 37639040-42
Fax: (042) 37660649
Shadbagh Branch (Sub Branch)
PABX No. (042) 37600953/986
FAX No. (042) 37600960

Gulberg Branch
PABX No: (042) 35764288-9
Fax No: (042) 35755358
Jail Road (KASB House) (Sub Branch)
PABX No. (042) 35776723-5
FAX No. (042) 35875013
Model Town Branch (Sub Branch)
PABX No. (042) 35915673-6
FAX No. (042) 35915677

ISLAMABAD BRANCHES

Islamabad Branch
PABX No: (051) 2826181- 83
Fax: (051) 2826184
UAN: 111 555 666
G-10 Markaz Branch (Sub Branch)
PABX No. (051) 2819211-3
Fax No. 051 2819214
I-9 Markaz Branch (Sub Branch)
PABX No. (051) 4858395-97
FAX No. 051-4858401

F-11 Markaz Branch
PABX No. (051) 2111533-4
Fax No. 051 2111532

Rawat Branch
PABX No. (051) 4612413-5
FAX No. 051-4612418

Bahria Town Phase VIII Branch (Sub Branch)
PABX No. (051) 5705651-5705652-5705653
FAX No. (051) 5705658

SIALKOT BRANCH

Sialkot Branch
PABX No: (052) 3241671-74
Fax (052) 3241679
Kashmir Road (Sialkot) (Sub Branch)
PABX No. (052) 3242650-3
Fax No. 052-3242658

MULTAN BRANCH

Multan Branch
PABX No: (061) 4587701-3
Fax No: (061) 4587705
Bosan Road Multan Branch (Sub Branch)
PABX No. (061) 6210213-4
Fax No. 061-6210219

GUJRANWALA

Gujranwala Branch
PABX No: (055) 3252348 / 3252353
Fax: (055) 3254529
Gujranwala G.T. Road Branch (Sub Branch)
PABX No. (055) 4294014-6
FAX No. (055) 4274016

RAWALPINDI BRANCHES

Rawalpindi Branch
PABX No: (051) 5527840-43
Fax: (051) 5527844

Raja Bazar Branch (Sub Branch)
PABX No. (051) 5777451-2
Fax No. 051 5777453

Bahria Town Rawalpindi Branch
PABX No: (051)5730371-3
Fax: (051) 5730376

Chandni Chowk Branch
PABX No. (051) 4417049-50
Fax No. 051 4417051

PESHAWAR BRANCHES

Peshawar Branch
PABX No: (091) 5279432 / 5279425
Fax: (091) 5279838

University Road Branch (Sub Branch)
PABX No. (091) 5711526-7
Fax No. 091 5711529

Hayatabad Branch
PABX No. (091) 5830024-8
Fax No. 091 5830025

HYDERABAD BRANCH

Hyderabad Branch
Tel: (022) 2729917-18
Fax: (022) 2785977
UAN: 111 555 666

Hyderabad Market Branch (Sub Branch)
PABX (022) 2636660-2
Fax 022 2636275

MIRPUR (AJK)

Mirpur (A.K.) Branch
PABX No: (058610) 42841 / 44877
Fax: (058610) 42742
UAN: 111 555 666

Chaksawari Branch
PABX No. 05827-454810-11
FAX No. 05827-454814

GUJRAT BRANCHES

Gujrat Branch
PABX:(053)-3517966-69
Fax (053) 3517965
Lala Musa (Sub branch)
PABX No. (053) 751905-8

OTHER CITIES

Faisalabad Branch
PABX NO (041) 2649667-70
Fax: (041) 2649672

Sukkur Branch
Tel: (071) 5619083-4
Fax No. (071) 5619088

Quetta Branch
Tel: (081) 2842531. 2836518
Fax: (081) 2842531
UAN: 111 555 666

Fateh Jang Branch
PABX No. (051) 2210244-6
Fax No. 051-2210249

Nawabshah Branch
PABX No (024) 4330304-5
FAX No (024)-4330307

Sadiqabad Branch
PABX No. (068) 5800067-69
FAX No. (068) 5709114

Mandi Bahaudin Branch
PABX No. (054) 6507207-9
FAX No. (054) 6507210

Bahawalpur Branch
PABX No. (062) 2880701-3
FAX No. (062) 2880704

Kasur Branch
PABX No. (049) 2720697-98-2763823
FAX No. (049) 2763824

Jhelum Branch
PABX No. (0544) 622385/6
Fax No. 0544-622938

Kharian (Sub Branch)
PABX No. (053) 7610629-36

Dina (Sub Branch)
PABX No. (0544) 631171-3 / 80

Dinga (Sub Branch)
PABX No. (0537) 405061-62

Kamoki Branch
PABX No. (055) 6814580-2
FAX No. (055) 6814584

Jhang Branch
PABX No. (047) 7651670-2
FAX No. (047) 7651676

Kandhkot Branch
PABX No.(0722) 570041-43
FAX No. (0722) 570044

Ghourghashti Branch
PABX No. 057-2871291-2871292
FAX No. 057-2871393

Mehar Branch
PABX No. (0254) 730375
FAX No. (0254) 730376

Vehari Branch
PABX No. (067) 3360515-7
FAX No. (067) 3360519

Okara Branch
PABX No. (044) 2520526-8
FAX No. (044) 2520590

Sargodha Branch
PABX No. (048) 3768121-3
Fax No. 048 3768122

Jacobabad Branch
PABX No. (0722) 654804/5
FAX No. (0722)654801

Rahimyarkhan Branch
PABX No. (068) 5871901-3
Fax No. 068 5871908

D.G.Khan Branch
PABX No. (064) 2471560-2
FAX No. (064) 2471566

Mirpurkhas Branch
PABX (0233) 874612-4
Fax No. (0233) 874615

Gujjar Khan Branch
PABX No. (0571) 3511903-5
FAX No. (0571) 3511913

Sambriyal Branch
PABX No. (052) 6521003-5
FAX No. (052) 6521006

Sheikhupura Branch
PABX No. (056) 3780984-6
FAX No. (056) 3780987

Sanghar Branch
PABX No. (023) 5541479-80-5541478
FAX No.

Sahiwal (Sub Branch)
PABX No. (040) 4228801

FORM OF PROXY

SEVENTEENTH ANNUAL GENERAL MEETING

The Company Secretary,
KASB Bank Limited
Razia Sharif Plaza (Basement),
Jinnah Avenue, 90-Blue Area,
Islamabad.

I/We ____

of ____ being member(s)

of KASB Bank Limited holding ____

Ordinary share(s) hereby appoint ____

of ______________________ or failing him/her ______________________

of ______________________________ who are also member(s) of the Bank, as my/our proxy

in my/our absence to attend and vote for me/us, and on my/our behalf at the Seventeenth Annual General Meeting of the Bank to be held on Saturday, April 28, 2012 at 11:00 AM at the Registered Office of the Bank at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad and/or any adjournment thereof.

As witness my/our hand this ____________ day of ____________ 2012

Signature on
Five Rupee
Revenue Stamp

Shareholder Folio No. [ ]
Or
CDC Participant I.D. No. [ ]
&
Sub Account No. [ ]

The signature should
agree with the
specimen registered
with the Company

NOTES:

1. This proxy form, duly completed and signed, must be received at the Registered Office of the Bank, Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad, not less the 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he/she himself/herself is a member of the Bank, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy, and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. CDC shareholders and their proxies are each requested to attach an attested photocopy of their National Identity Card or passport with this proxy form before submission to the Company.